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ECONOMIC AFFAIRS

No. 20



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## NATIONAL ECONOMIC POLICY

### MODERNIZATION OF MANAGEMENT DISCUSSED

Shanghai XUESHU YUEKAN /ACADEMIC MONTHLY/ in Chinese No 4, 20 Apr 79  
pp 1-17, 9

[Article by He Jianwen [0149 0256 2429]: "Let's Talk About the Modernization of Management"]

/Text/ The Third Plenary Session of the 11th Party Central Committee has issued its order to the whole party to march forward. The center of gravity of the work of the whole party must now shift to socialist modernization. This is a great turning point. In order to carry out this great shift well, the whole party must learn about economics, about science, and about management.

This article wishes to discuss four points of opinion surrounding the question as to what is meant by the modernization of management, why our management work has to be modernized, and problems in promoting the work of modernizing our management /that we might encounter/.

#### Proposing the Question for Discussion

What is meant by the modernization of management? In order to answer this question, we must discuss its connotation, its sphere of activity, its characteristics, its key elements, how is it related to and different from ordinary management science, what are its fundamental theories, and other such aspects.

Generally speaking, the modernization of management is the study of how management work can be modernized and how, on the basis of scientific management, to apply with emphasis the theories, methods and means of science and technology in the study and disposal of problems concerning the laws intrinsic in management work.

The modernization of management is a strategic measure and general trend in accelerating the development of science and technology as well as the national economy. The reason we say that it is a strategic measure is because the realization of modernization must not only come about in the present stage of socialism but it is also necessary to continue to study the question of the modernization of management even after the dying out

of classes and withering away of the state apparatus. To say that it is a kind of general trend means that to accomplish this task is not something that takes only 3 or 5 or 10 years, but that it must be thoroughly carried out in the whole process of the New Long March.

The connotation of this term "management" is very broad; it is of a dual nature. From its reflection of the will of a class, it is characteristic of the upper structure. The state management and legal management of all social systems reflect the will of the ruling classes of those respective societies. From this aspect of its character, "management" also includes ideological education, leadership style, democratic management...On the other hand, management in many other cases consists in the forming of rational organization and conduct of scientific planning on the basis of the objective laws of things, the objects of labor, and the characteristics of production, and also in the exercise of control by the use of technical means, such as the various technical management, production management, transportation management, economic management...Because of this dual nature of management work, it is therefore inevitable that our study of the laws of "management" itself will touch upon the two realms of social science and technical science. We must pay attention to this characteristic especially when we study economic management. For example, the production in a capitalist society, generally speaking, is without any advance planning; this is determined by the private ownership system prevailing in that kind of society. But, insofar as the internal conditions of an enterprise in a capitalist society are concerned, it is, for the sake of its very existence, equipped with very tight planning and means of control. And insofar as these laws of tight, scientific management are concerned, we should most certainly absorb the nutritive substance they provide. These methods of management which reflect objective laws are perceived and acknowledged through long periods of practice in production, and they must be so accepted by whatever class, and whatever class not content with so accepting them is bound to suffer objective punishment.

The term "management" suggests both "control" and "disposal." It means to effect organization, adjustment, preparation and preservation with respect to personnel, financial affairs, and things, and to apply scientific calculation and measurement, correct use, timely inspection and test, and rational maintenance and improvement pertaining thereto, and carry out superior management according to an established system.

Generally speaking, control is the basis of management; without control, there can be no management. But management plays an even higher function than control.

The connotation of "management" is very broad; modern management is but a part in "management."

The modernization of management is, on the basis of developing modern management science and applying scientific management, to place emphasis on the use of the theories, methods and means of modern science and technology

in the study and disposal of laws and problems in management as a goal; it stresses the grasping of the direction and level of sophistication of modernization and also helps the state to grasp the key measure of establishing a relevant system and to develop its research accordingly.

In order to realize the modernization of management work, it is necessary first of all to achieve scientific management, which is namely to proceed with management on the basis of the principles and laws of management science. As matters stand, there are many problems concerning scientific management, among which the following few warrant our study.

#### 1. Structure of the State's Economic Management

A state system is also a kind of large-scale management structure. The question in this regard must be decided by the Party Central Committee and the government of the country through study. The management structure we speak of here is to be studied with an emphasis on theory and the laws of science, and not something to replace the function of the Party Central and the government of the country.

In respect to the structure of economic management, there exist, as matters stand, many irrational features. If the problem of these features is not resolved, the activism of an enterprise cannot be mobilized, nor can full play be given to the potential of advanced science, technology and equipment.

Throwing management structure into a topsy-turvy condition is bound to put obstacles in the way of realizing our socialist planning. The central question concerning this management structure is to solve the problem of how to give full play to regional activism under the uniform leadership of the Party Central Committee. Because of the irrationality of the management structure today, things that should be concentrated remain unconcentrated, whereas the power and authority that should be dispersed have not yet devolved downward upon the lower levels. The question of establishing rational economic districts is also a big question in management structure. With management predicated on ordinary administrative districts, certain man-made problems of incompatibility have appeared.

#### 2. There Must Be Correct Auditing and Accounting Methods

In some localities, not only is irrationality of management not discovered, but what constitutes such irrationality often becomes even widely publicized with relish. The problem lies in the very lack of correct auditing methods. For instance, a certain newspaper published a report on 8 December 1978, saying that the power station in that locality had accomplished its plans 81 days ahead of schedule...Looking at it on the surface, people might gather that accomplishing one's plans ahead of schedule must of course be a good thing. In reality, a great deal of falsification happened to have been involved here which only those who are technically competent could recognize. Now, upon audition, it has been discovered that there were

two major targets for the station to accomplish, one was the amount of electricity generated, and the other was the standard rate of coal consumption. The prescription of two targets of this nature brought about certain problems which made waste legitimate.

3. How To Accelerate the Circulation of Capital. The following questions merit our research:

(1) Mobilize the activism of the various enterprises in accordance with economic laws. For instance, how to rationally promote the completion of the cycle, and hence to rationally shorten the time, for converting equipment into old capital and for accelerating the renewal of the means of production. Today there are certain scientific research and designing units that attempt to carry out experiments at certain points for the sake of turning designing work into something like running an enterprise. This, if it is to be accomplished at all, arouses the need to study the question of how to audit a designing job. If the designed program happens to be rational, then it should be possible to launch it into production at an accelerated speed, and also to effect capital circulation at an accelerated speed. According to situations reflected from below, in the case of a hydroelectric power station it originally took not more than 3 to 5 years to regain the initial investment, but 7 to 8 years are needed to achieve the same feat. Also according to situations reflected from below, the prescribed period for converting equipment into old capital in our electronics industry is 20 years. Now, foreign electronics industries are developing at the greatest possible speed while we remain unable for a long time to renew our own equipment. Therefore, even in the case of our new, modern industries, the level of our production is still incapable of catching up with that of their foreign counterparts. Perhaps we can say that general business management and industrial management are concerned with the study of economic laws for the sake of applying them to the management of economy, whereas in the case of modern management science the emphasis is placed on the application of theories, methods and means of modern science and technology to the study and disposal of the laws and problems in the economy as well as in management. Take investment theory as an example, the practice here is to use mathematical methods and electronic computers to solve the relationship between time and money and to solve the question of selection concerning investment programs, by applying the multiplication of two smallest factors to the determination of the turning point between gain and loss.

(2) Broadly open up the avenues for absorbing floating capital. We should take the absorption of floating capital as a component of the national economy's management system as a whole. We should examine the advantage and liability, the gain and loss, between its political and economic aspects of operation by the systems analysis approach. For example, tourist enterprises entail a vast income, yet we are still not very good at handling them. Cinematic enterprises are also a means to absorb floating capital.



(3) Shorten the cycle of scientific research projects and the cycle of designing operations by using electronic computers in the designing process.

(4) Accelerate the transitional period between results of scientific research and their practical application in the industrial enterprises. In the case of certain results of scientific research today, there are only samples on exhibit but no products for distribution. More seriously, the results of certain scientific research projects may be subject to random suppression by the head of a small production unit or immediate superior of any rank. It is my opinion that in the matter of our scientific legislation from now on we should explicitly prescribe that the transgression in suppressing results of scientific research is even more serious than taking kickbacks from the workers, and must itself be subjected to disciplinary measures.

(5) Reduce the period and amount involved in transitional storage. For the sake of achieving this, it is necessary to apply management theories and electronic computers to the attendant control measures.

(6) Because both monetary value and prices in our country have remained stable, certain foreign capitalists are willing to deposit their money in the People's Bank of China. Consequently, it is necessary to study how to accelerate the circulation of foreign capital deposits. It is necessary to give full play to the role of foreign loans.

4. How to reduce the "fruitless periods" on the part of employees. There are quite a few problems in this regard. For instance, it remains a big problem to handle well the transportation schedule for the workers to go to, and return from, their places of work in the big cities. How should the buses be controlled? This problem alone requires the application of operations research methods and electronic computers.

Scientific management is the foundation of the modernization of management. Yet, with respect to the science and technology that are advancing at accelerating speed, the classic management science of the past no longer meets the demand of today. Modern management science must now be adopted.

How to modernize our management work? There are already many examples abroad. For instance, subway ticket inspection no longer needs human handling. There is a magnetic tape attached to each ticket which, once fed to the computer, helps record passenger flow at the same time as it is inspected. This serves to automate general control. Deposits under 1,000 francs, [in another example], are all handled by computer. In order to accelerate the circulation of capital by reducing its traveling period, remittance, with the assistance of modern management, can reach the recipient within 3 seconds in certain foreign countries. In the case of the management and consultation of personnel files and intelligence data, Canada has established an on-line inquiry system between 53 cities of the country by way of the telephone lines. Inquiries may be sent from each of the terminals of this network. The 5 million articles and documents

in science and technology published since 1970 can all be reached in an average of 10 minutes. In a certain medical library there are 2,300 periodicals. If a reader needs duplicated copies, such copies may be sent out within 36 hours upon the receipt of such a request. The efficiency becomes even more elevated when the computer is used to search intelligence data. Cases like these have to do with high-speed management; simple dependence on ordinary management science of the past will no longer suffice. Through a computerized communications network, patients far away may be diagnosed by well-known doctors in any major city... In a word, if we wish to modernize our management work, we cannot do without a computerized communications network. But this is not the same as saying that once we had the computer it would be tantamount to the realization of management modernization. All those who understand the computer know that in order to make the computer handle management operations, it is necessary to study a series of related questions such as those concerning pertinent theories, methods, software techniques, terminal techniques, communications techniques, etc. When we say a computerized communications network is an important link in the modernization of our management work, it means that a great project is involved if we are going to set up such a computerized communications network of nationwide scale. Once this network is established, it becomes not only a means to realize the modernization of our management but also a promise that it inevitably is to develop into a nerve-center in the management of our national economy. If we compare railway and telephone networks as the arteries of our national economy, then it is perfectly appropriate to compare such a computerized communications network to the nerve-center of management for our national economy. If a person's nerve-center becomes problematical, he will feel numb and his nerves become entangled, although he is not going to die right away. When our computerized communications network becomes established in the future, the management of our national economy can be expected to be always maintained in a superior condition.

An organized computerized communications network with terminals at various stations of work connected to a central computer system is the most developed form of modern science and technology and modern management.

Modern management is determined by the characteristics of modern production and science and technology, and not by the social, political system. The social, political systems of the United States and Japan cannot compare with the socialist political system; democracy of the capitalist class is not as advanced as democratic centralism. Yet, the level of modern management in both the United States and Japan is far superior to the present level of management of the socialist states. This is because capitalist science and technology and modern production are highly developed; if their management work cannot catch up, they will lose their capability for competition. To say this is not to propagate the superiority of capitalism over socialism, since we are fully confident that socialist modern management can be realized. Under the guidance of a correct policy line, so long as we are, after a period of exertion, bound to catch up with, and surpass, capitalism, and thereby elevate socialist labor productivity to an even higher level than that of capitalism.



Although the modernization of management is determined by the characteristics of modern production and science and technology, it can in turn promote the development of science and technology at a high speed and quickly and accurately reveal the regularities in scientific management so as to make more rational organization of production in the national economy possible. Without modern management, it would be very difficult to realize the Four Modernizations within a short period of time. In the development of our economy, science and technology are of course very important to us. But if there were good management personnel and scientific management methods, it would be possible for us to apply results of scientific research directly in industrial enterprises at an even higher speed, to organize the scientific personnel even better so as to give full play to their expertise, and to make still greater contributions. At present, the newest science and technology can be imported from foreign countries. But our management personnel cannot be imported from foreign countries. From this point of view, the importance of training highly competent management personnel is by no means secondary to that of training scientific and technical personnel directly.

Since modern management is determined by the characteristics of modern production and science and technology, what characteristics do modern technology and production actually have? And what are the demands these characteristics make on management? These questions need to be explored and discussed.

Modern technology has the following three important characteristics:

1. Automation is the general trend in the development of modern science and technology. Because : (1) It is capable of conspicuously elevating labor productivity, elevating the quality and quantity of production, reducing consumption, and is also capable of adapting to the high speed and complexity of modern science and technology. (2) Automation is the most developed form of modern production. (3) Automation is the new mode of production that reduces the three kinds of differences.

Industry, transportation, agriculture, commerce, banking and medical diagnostics, scientific research...almost every trade and every profession is headed toward automation. Industry and transportation are better known to us. But modern farming technology also requires automation, such as the use of the computer to raise ducks, to foster good species of milk cows and the like automatically. In Japan, technical control of sprinklers has already begun to be experimentally used in agriculture and irrigation, which is expected to lead to conspicuous savings in the use of electricity. In foreign countries, the computer is also relied upon in the selection of key routes in operations research and economic management.

The consequence of automation is bound to arouse a great reform in man's control of his time. Man's lifetime may be divided into three parts: The first part is the time he needs to maintain life; the second part is

the time he needs to develop life (including work and study); and the third part is the time he needs to enjoy life. Since automation elevates labor productivity, man's time for rest and enjoyment will become more and more abundant.

The special characteristic of automation is to demand certain revolution in the structure of management: e.g., reducing the size of the staff for a given enterprise, changing the structure of employment of such a staff, possibly increasing the proportion of mental labor and scientific and technical personnel, possibly increasing the ratio of service professions (in the future, the connotation of the service profession may become even broader than it is today; beyond the category of the existing service professions, all services provided to the people during the periods of their rest and enjoyment may be called service professions and, as a result, all literary, recreational, athletic, and artistic activities may possibly become service professions in the broad sense), software personnel possibly increasing to a very great extent (software is the crystallization of the wisdom of many people), strengthening of uniform maintenance work, the renovating of channels for the supply of raw materials and animal feed...

2. Modern technology and the process of production are characterized by high speed, microanalysis, large-scale, extreme comprehensiveness, and remote control. To manage these characteristics, reliance upon democracy is not enough; only the adoption of automated management can adequately adapt to the situation. Automated management cannot be realized without the computer.

The creation and launching of space travel techniques can hardly be accomplished well and expeditiously enough without automated management. The rapid-cutting speed in the cutting of steel today has already reached 25-30 meters per second. Other fields such as large-scale concentrated electric wiring, high energy physics, the transmission of heredities, remote sensing and the like are also increasingly inclined toward the study and application of microanalysis in respect to the microscopic worlds. For the sake of guaranteeing the quality of products, it is necessary for management work to enter into the process of automated production. Without the use of automated means of inspection in the control of its operational routes and currency flows, the quality of work provided by a functioning large-scale concentrated electric wiring system would be unthinkable.

High-speed modern science and technology require high-speed means of management and nerve-center. The handicrafts management model and the scientific management before the appearance of the computer were no longer capable of adjusting to the high-speed forward development of modern technology. To change this situation, nothing would suffice save computerized management.

3. High-speed "surpassing" also requires the modernization of management. The inventions and discoveries achieved in foreign countries in the recent decades far exceed the total of all those cumulated during the past two

millenia. It is estimated that the speed to come up with such inventions and discoveries in the next 10 years will again double the speed of development of the present. If we are going to accomplish the work in 22 years that others have taken several decades to accomplish, we must absorb the wisdom and essence of others from a large amount of indirect experience within the limited period of time; it would be unthinkable to attempt to do so without the use of computerized management. Data that used to require several days of manpower to search for can now be provided within a few minutes with the assistance of the computer. If our designing work can be turned over to the computer, it will be possible for us to shorten the designing cycle considerably. After the modernization of management is realized, it will be possible to basically change the backward state of our publishing industry, too. From all this, it is obvious that modernization of our management work is not something that we can take or leave, but a grave matter of struggling for time and speed that concerns the security of the state; nor can this be replaced by reliance on the classic management science before the appearance of the computer alone.

The point of emphasis in the modernization of management is on "modernization." "Modernization" is not a static concept but a developing process and trend. If we say that the steam engine was a means of production for modernization in the 18th century, it is no longer so. Therefore, when we talk about "modernization" today, we should have a special time concept. When we mention the level of modernization, we should thus connect it closely with the international level of advancement and its high-speed development.

The incessant revolution in the manufacturing of electronic computers itself and its close connection with modern communications techniques have produced the technology pertaining to the computerized communications network and thereby also advanced the modernization of management work to a new level. This is namely to connect many computers and terminal establishments geographically scattered wide apart into a single system through such a communications network; this makes it possible for the management units of the national economy to accomplish, through the use of this very system, the whole processing procedure of collecting, exchanging, storing, distributing, and retrieving (in the form of pictures appearing on a screen or reports in print, etc.) the data they need (figures, charts, situations). This management system is also called an information processing system. Once such a system is established, it is possible for them to share the resources within the system (by making full use of the computing capabilities of the constituent computers, their exterior equipment, their softwares and their figures), and thereby reduce possible duplication of the collecting of information, increase the rate of use of those computers, minimize computing cost, and in the end achieve the greatest possible economic rationality. This is the common trend in the competitive developments in foreign countries in recent years. The United States, the Soviet Union, Japan, West Germany, France and Britain are all establishing management systems for different service purposes as well as management systems providing different forms of service, such as scientific and technological intelligence, market forecasting, consumption and sales

control, resources control, tickets selling, railroad freight control, etc. The Soviet Union and Romania are in the process of establishing nationwide semi-automated management systems so as to provide leadership and a policy-making role in information processing for the management of their national economies.

Plenty of facts illustrate to us that the level of modernization of the 1950's was greatly different from the level of modernization of the 1970's. Such technical levels of modernization have been changing daily; while we proceed with the modernization of our management, we must pay close attention to this question.

In a word, the reason we propose this question of the modernization of our management for study is because many problems exist in our management, which is very backward. If we fail to study the question as to how our management work can be modernized, it is bound to affect the realization of the Four Modernizations.

### The Necessity, Urgency and Realism of Management Modernization

The ultimate purpose of management modernization is to raise labor productivity to the greatest possible extent, develop the productive forces at high speed, win all the time and social wealth that can be won, and unite the interests of the state, the enterprises and the individuals closely together.

#### (I) The Necessity of Management Modernization

1. Characteristics of the modern society require management modernization. Apart from the characteristics of modern science and technology mentioned above, the specialization trend in social production makes the division of labor more and more minute and the interdependent nature of the different departments and units of the national economy closer and closer; problems of overlapping departments and units and overlapping jurisdictions have multiplied, and they make our management work even more complicated. The way enterprises of manual labor used to be managed is no longer applicable. For instance, the United States' Apollo moon-landing plan took 11 years to accomplish. The manpower it mobilized reached 420,000 during its peak year, with over 20,000 big, medium and small companies and manufacturers and 120 universities and laboratories participating. It spend a capital of some \$25 billion, and used more the 3 million parts and accessories. It is impossible to accomplish it without employment of the methods and means of advanced science and technology in view of the complexity of the myriad organizational and management tasks such as designing, research and manufacturing, production, contracting, ordering, etc. The many large-scale, comprehensive projects we have encountered in the development of our production and construction, such as the irrigation work to channel southern water resources northward, the petroleum exploration project of considerable scale, the nationwide electrification network and communications



network, etc., all tend to require the participation of several departments and units of the national economy, several dozens of kinds of work, several hundred processes of work, several thousand machines, several tens or even hundreds of thousands of manpower. It would be impossible to do an efficient job in any of these without using modern management techniques and means.

Modern society requires as expeditious a response as possible to its complicated problems at a high speed and with great efficiency. In a certain sense, speed alone is possible to win the initiative in ultimate victory; whoever lags behind is bound to be beaten. In respect to problems in the management of the national economy, if needed information comes in only in a sluggish way, the prevailing situation remains vague to the managers, their response happens to be clumsy, and their action becomes belated, then golden opportunities will be lost and waste will result, leading possibly even to certain strategic disadvantages and gigantic losses in people's lives and properties. If, for example, a flood situation suddenly confronts us, the impersonal nature of water--much like that of fire--is bound to produce 10,000 changes in a twinkling of the eye; should we fail even to put a telephone call through in half a day, how could this enable leaders of the Party Central Committee to make a pertinent decision? From this, we can see that whether our management work is modernized is a big question that concerns whether or not the Chinese people can stand erect among peoples of the world. If we cannot succeed in this regard, "then you are going to be excommunicated from the earth." In view of such high-speed development in science and technology, the worldwide trend of modernization dictates that we make our choice quickly.

2. The superiority of the socialist system requires management modernization. It is possible for the socialist system to examine the economic results of material production from the angle of the whole society, with the production of the whole society treated as a single entity, and thereby achieve greater, faster, better and more economical results to the greatest possible extent. In order to achieve such goals, we need, apart from the theories of technology and economics as our guide and the adoption of advanced scientific methods, also a great many dynamic figures from our national economy as the basis of our calculation. It is here that we need to use modern technical means to collect, store, and process the information produced in the various realms of our national economy such as production, circulation, exchange, and distribution, and thereby really carry out the practice of achieving economic results through the process of material production, and also plot the comprehensive balance in the planning of our national economy and the forecasting work in our technical economy. At the same time, it would also be possible for us to come up with continuous economic appraisals in the implementation of the plans so as to discover defects in time, revise our activities in practice, avoid waste, and thereby realize the superiority of the system/. Hence, adoption of modern management would fully consolidate the superiority of the socialist system. After a period of exertion, it is surely going to enable us to create an even higher labor productivity that is capable of overcoming capitalism.

3. High-speed development of the productive forces requires modernization of our management. Just as the invention of the steam engine and electric power set in motion the first and the second technological revolution in man's modern history, the automation technology equipped with the computer appearing today is setting in motion again another great revolution. The application of such new technology causes great changes in the entire structure of production. Facts prove that, where there is only advanced equipment but no modern management, even the efficiency of such advanced equipment cannot be fully realized. For example, in the case of many imported high-speed computer-controlled machine tools, because the automated editions of programming and language systems are not also imported and therefore older workers are allowed to formulate such programs and then feed to the computer for implementation, the result is that the efficiency of such computer-controlled machine tools can only be realized up to 30 percent. Another example is that, while we have in our own country produced a computer with the speed of 1 million times per second, because we have not adopted advanced management methods (not coupled it with an operating system) it proves seven times slower than an imported computer with the speed of 200,000 times per second which is coupled with an operating system when both are used to calculate the same question. From this, we can see that modern management facilities must be adopted in modern production technology.

## (II) The Urgency of Management Modernization

That management work today is ill-adapted to the development of the productive forces is mainly reflected in the following:

1. Slowness. Because of the lack of advanced technical means, the figures needed in management work are still collected level after level by way of manual calculation at a very slow speed. In the case of certain departments and units, reports on the state of completion of planned production each year cannot be printed until July or August of the following year. How can they become the basis for new plans under such circumstances? In some departments and units, people employed in the use of the abacus alone number several tens of thousands (not including those at the basic level). But even so, the figures they come up with are still far from accurate, leaving the number of things stored in the warehouses unclear; the collection of these figures, too, is very slow, taking several months through the various levels from the local to the central. Some departments and units start immediately to organize production upon discovery of certain short-line products; but, by the time such short-line products are produced, the situation has already changed.

2. Crudeness. Because of the lack of technical means, the figures necessary for production management collected from the basic level at the present have been reduced to a minimum, with indicators left in figures so rough that they simply fail to satisfy the demands of management. Some departments and units have reflected that they are unable to report

the eight kinds of technical-economic indicators required of them. Even in tackling the production figure alone, they would not know until the following month. Hence, when plans and technical policies are formulated, "the will of the superior" or "brain-racking" on the part of the personnel at actual work alone would be relied upon because of the lack of such a better basis.

3. Dispersion. Dispersed management, self-centered administration, and lack of centralized, uniform leadership or uniform management of technical policies often lead to considerable duplication and waste in manpower and materials. This seriously affects the speed of construction. For example, because of the lack of means of modern management the departments and units in charge of resources and supplies find it very hard to effect uniform control; they have no idea how much is there in the warehouse of each of the constituent units. There happens to be one unit which was looking for a certain alloy material; after searching all over the country, it finally found it in its own warehouse, and even discovered that the amount in storage was by no means insignificant. There is also another unit whose three constituent research institutes were found to be conducting overlapping projects without consulting one another or harmonizing with one another. As for overlapping projects and waste between different units, they have been even more numerous. This dispersion in management stands in direct opposition to the comprehensive nature of modern society; it hampers the development of our productive forces to the extreme and constitutes a key question that affects our high-speed advancement. We must change as fast as possible such management methods, which are ill suited to our advanced social system.

### (III) The Feasibility and Realism of Management Modernization

It is entirely necessary to establish a nationwide information-processing system for the management of our national economy. This is an important issue of nationwide scope dictated by the prevailing trend that must be brought to fruition.

But it must be pointed out that it is a very great task to establish such a system, which involves the various departments and units of the national economy and several realms of science, which requires the mobilization of the efforts of hundreds and thousands of people and large amounts of investment, and which takes perhaps several decades before it can become a reality. Therefore, our beginning step must be rational; it must seek to carry out analyses and appraisals on the basis of seeking truth from facts with respect to our own equipment, capability and current conditions.

Since the production of the first computer in our country in 1958, the number of computers installed across the country at the present is estimated at about the level of 1,000. For several years now, because the leadership has gradually recognized the role of the computer and the enthusiasm of using the computer on the part of the masses has also been elevated, the

the concerned departmental revolutionary committees have all conducted certain experiments in the use of the computer in management and secured due results. Facts show that it is entirely baseless for some people to think that it is still too early to use the computer in management in our country. There are also people who think that it is too early to consider the establishment of computerized communications systems; this thinking, likewise, is baseless. When Japan started to build its computerized communications systems, it had only 22 computers. We already have 1,000 computers today. It is imperative that we give full play to the function of these computers, build our computer complexes, and quicken the pace in connecting them into a network. We now lag far not only behind the United States, but even behind countries such as Romania. The portion of computers used in management across the world today makes up 70-80 percent of the whole lot; yet the portion of computers used in the departments that have relatively more computers to use in our country remains less than 4 percent.

#### (IV) The Key to Management Modernization

Because of the requirement of the four modernizations, some departments have also begun to feel the urgent need to build "a network of computers." The networks thus built by these departments will naturally become the branches in the great management system of our national economy which interact with one another in a comprehensive way. In order to avoid waste and detour, we must strengthen our uniform planning and technical management. At the central level, in particular, there must be a powerful leadership and organization to try to grasp the key questions and solve them so as to accomplish the task. The following questions constitute the relatively more important key.

##### 1. Perfecting the Management Structure

If we take the entire national economy as the object of management, then whether or not the structure of the system and the principles of its organization are rational is an important factor as to whether or not genuinely good effects of control can be achieved.

The study of the management structure includes: how is the management system to attain effective control over production and management, and how is it to adapt to external influences. In foreign countries, there are already some people who use the concept of mathematical grid to demonstrate certain horizontal and vertical directions of such influences in a complicated complex, in terms of a management grid structure, goals grid structure, multi-level grid structure... The study of the management structure also includes examination of the interrelationships between the different parts within the system, such as how to equip it with a relevant staff, proportions between the various kinds of work, classification of powers and responsibilities, structure and responsibilities of the leadership etc. The irrationality of a management structure often results from a lack of the concept of the system and the whole situation on the part of the leading cadres. Therefore, modern management cadres should all learn some "systems work" or "systems analysis."



2. Realizing overall plans and uniform measures of modern management gradually from the standpoint of the national system at large as a whole, including overall designs, uniform plans, requirements regarding the planning of the step-by-step buildup of basic-level sources of information, and staff training.

The importation of computers plays a very important role in the raising of our labor productivity, in the improvement of our management, and in the acceleration of the four modernizations. But we should also see, on the other hand, that, under the still very backward conditions of production management in our country, the computer is not necessarily the only wonder drug or panacea. We must see that, in order to give full play to the function of the computers, it is necessary to structure them into a system and have them connected with another series of conditions such as the level of development of the entire industry, the manufacturing of terminal establishments, the setting up of a communications network, the matching of softwares, the adoption of scientific management structures and methods, etc. If we fail to give comprehensive consideration to the above question, even if we have imported all the computers we need, they will not necessarily become more than a great big abacus.

Many comrades think that our computer industry must develop toward the establishment of uniform systems. But, how are we going to make such systems uniform today has actually become a problem that itself merits our attention. If we cannot handle this problem well, we are bound to be led to a detour.

In a word, in order to realize the modernization of management, it is necessary first of all to manage well the means of modern management and the production, manufacturing and application of the nerve-center.

3. Continuously improve, popularize the theories and mathematical methods of modern management and the study of its language (including sound-recognition) and its softwares.

4. The ultimate purpose should be one of enabling the various departments and units to apply theories, methods and means of modern management directly in their management work.

#### Modern Management's Sphere of Activity and the Fundamental Theories To Be Mastered

Modern Management involves many broad aspects of work. For example:

1. Production and capital construction management (including agriculture, war materials industry, manufacturing, building industry, energy resources, etc.). 2. Transportation and space industry management. 3. Designing, production, systems unification management work. 4. Quantity control. 5. Management of information processing networks. 6. Flood control, earthquake forecast and coordination. 7. Economic analyses and comprehensive balancing of the national economy. 8. Management of the standardization and systematization in scientific research and designing. 9. Management

of modernization in national defense. 10. Management of resources and meteorological forecast. 11. Management of intelligence operations, archives, and publications. 12. Management of supplies and real estate. 13. Banking and monetary management. 14. Management of circulating commodities and warehouses. 15. Labor management. 16. Environment protection and medical and public health management. 17. Modern education management. 18. Public utilities management. 19. Management of governmental institutions. 20. Planning management.

Modernization of management in the above realms must be realized step by step according to their degrees of importance and urgency and according to uniform plans. At the present stage, emphasis should be placed on management modernization in the realm of production, science, technology, and economics.

The central question is now proposed, and its sphere of activity proves to be very broad. Yet it is impossible for us to study everything. We can only elicit problems of a common nature among them and then organize relevant manpower to carry out their study. In doing so, we must employ pertinent new theories to arm the ranks of the work force, guide their action, and continue to strengthen and develop the subject of modern management through practice--in terms of "a modern management science" or "modern management work."

"Management modernization" and "modern management" are not necessarily the same. The former is a task, a trend to study how to modernize management work; the latter consists in the theories, methods and means of this task of realizing management modernization, in the general laws abstracted from practice.

"Modern management science" is a marginal science composed of the four parts of management science, economic theories, mathematical methods, and modern techniques. For the sake of realizing the modernization of management work, it will not do to have just one single science; there are many engineering, technical problems to be solved. From this angle, it may also be said that modern management is "systems engineering" composed of contributing sciences such as management science, control theories, information theories, mathematical methods, and computer technology.

In foreign countries, there are the two schools of "systems engineering" and "systems analysis." I am not here expressing agreement with the systems engineering school and opposition to the system analysis school, but merely saying that the use of "systems engineering" can even more accurately reflect the complete content of modern management. Because:

1. Modern management cannot depart from computers, and in order to give full play to the function of computers it is necessary to use them by connecting them into a network. This inevitably involves the problem of constructing a network, which is a very great feat of engineering.

2. Modern management not only employs the methods and theories of "systems analysis" in its study of problems and solution of problems but is itself also marked by the characteristics of engineering. That is to say, when implementing a certain theory, systems engineering must not only strive for the best in its selection of programs, but also pay attention to considering its general applicability, to fully examining its economy, and to mastering its timeliness without losing the optimum opportunity. For instance, it is a very big engineering project to construct a network of computers for the national economy; without setting up such an engineering feat, modern management would become empty talk or at the least cannot be fully realized. Here, for the sake of achieving the underlying purpose there can be many programs. It varies as to how the network should actually be built, both from the engineering standpoint and from the non-engineering standpoint. From the engineering standpoint, a most economical and least time-consuming program must be selected in accordance with the requirements of uniform planning in construction and available conditions of equipment. The factor of time and the factor of economy are both problems which must be taken into consideration when engineering is being attempted. There is a great difference between the network engineering of the 1950's and the network engineering of the 1970's.

From the standpoint of engineering, it is necessary to consider how to unify the various series of computers while attempting to build a network; to consider what kinds of terminal establishments to design--those which are capable of recognizing words, or those which are capable of scanning letters and symbols. It is necessary to consider providing conditions for the setting up of tape-carrying terminals? Which kind of Chinese characters to be used for input? Which communicating model to adopt? How to organize uniform maintenance and the supply of accessories?...To systems analysis, the study of these questions of a very pragmatic nature may not be necessary, but it is indispensable to systems engineering.

In a word, modern management (or modern management systems engineering) studies how, on the basis of scientific management, to employ the means, theories and methods of modern science and technology in the conduct of management work.

The connection and difference between "modern management science" and "management science" are simply explained as follows:

"Management science" took shape as a system long before the appearance of "modern mathematics" (operations research, probability theory, etc.), "control theories" and the electronic computer. Its exponent was Taiio. "Modern management science," on the other hand, cannot be separated from "modern mathematics," "modern control theories" and computerized communications networks.

Many labels are attached to discussions of "management science" in foreign countries. Here are introduced only a few passages for the reader's reference:

1. Industrial engineering, including working process analysis, action analysis, time analysis, equipment rationalization arrangement, improvement of human factors, structures and systems, management knowledge, etc.
2. Production planning management science, including production planning management theories, production systems analysis and design, etc.
3. Engineering economics, mainly the study of methods of technical economic analysis.
4. Management control science, including theories respecting management systems and sales systems, such as analysis of management activities, the accommodating relationship between an enterprise and its external environment, managing organization, managing and sales planning and criteria for its appraisal. Modern management control also studies mathematical models of the processes of management control, mathematical models of enterprise activities, etc.
5. Economic management theories: the study of enterprise activities and accounting intelligence, analysis of financial and accounting reports and charts, cost accounting, financial planning and profits. Modern economic management also includes the establishment of information systems and the like.
6. Economic theories: the study of theories respecting the market, consumer activities, etc.

Apart from the above contents, the characteristic of "modern management science" lies mainly in the use of concepts from "modern mathematics," "modern control theories" and computer technology, as exemplified in the already established operations research, statistics, investment theory, storage theory, macro-system theory, computer software theory, etc.

Operations research has provided a powerful instrument to the rational arrangement and planning of those systems in enterprise management which harbor many functions and factors, such as production, planning, finance and economics. Operations research can provide mathematical models to these systems, and from the mathematical models it is possible to derive the best possible programs for them respectively. Among the principal mathematical models of operations research are distribution models, ranking models, replacement models, storage models, and confrontation models.

Among the principal branches of operations research are planning theories (including linear planning, non-linear planning, dynamic planning, etc.), coping theory, ranking theory, policymaking theory, etc.

Statistics include mathematical-theoretical statistics and applied statistics, statistical survey theory, sampling survey theory, etc. Statistics also provide a powerful instrument for management techniques,

e.g., respecting quality control, sampling survey, reliability theory, factor analysis, component analysis, etc., which are all based on probability and mathematical-theoretical statistics.

Modern management science is still a new science and also a marginal science. Its contents are very broad. The question how to demarcate its borders with cognate science remains subject to continued, deepening study.

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## NATIONAL ECONOMIC POLICY

### PRICE DIFFERENTIAL OF INDUSTRIAL, AGRICULTURAL PRODUCTS DISCUSSED

#### 'Scissors Differential' Discussed

Shanghai XUESHU YUEKAN [ACADEMIC MONTHLY] No 5, 20 May 79 pp 68-72

[Article by Zhang Chunyin [1727 4783 7299]: "Concerning the Question of Reducing the Exchange Price Differential of Industrial and Agricultural Products"]

[Text] Comrade Hua Guofeng has already pointed out in his "Report on the Work of the Government" before the Fifth National People's Congress: "We must seriously study the comparative prices of agricultural and industrial products." The Third Plenary Session of the 11th Party Central Committee even more clearly recommended to the State Council that a decision should be made to raise the grain purchase price and also the price for the amount purchased above the quota, starting in 1979 when the summer grain is marketed. By that same decision, the purchase prices of other principal and auxiliary agricultural products should also be gradually raised correspondingly according to their respective conditions; in the case of industrial products intended for use in agriculture, on the other hand, the basic measure should be to reduce the cost of such products and then, on this basis, let the peasants basically enjoy the benefits of such a reduction. This was an important step in reducing the "scissors differential" in the prices of industrial and agricultural products. This article represents certain rudimentary and superficial understandings that have resulted from the study of this recommendation contained in the Communiqué of the Third Plenary Session of the Central Committee of the CCP 11th Congress concerning the question of reducing such "scissors differential." If comrades should discover anything incorrect, please kindly favor me with your criticism and correction.

Before we analyze and study the meaning of the recommendation by our Party Central Committee concerning the reduction of the "scissors differential," it is necessary first of all to offer some brief explanation as to my own understanding of the two questions before us--what is "scissors differential" and why there exists such "scissors differential" in the prices of industrial and agricultural products in our country.

"Scissors differential" in the prices of industrial and agricultural products was originally indicative of a situation in a capitalist society which shows that, because the development of industry is always faster than that of agriculture, the industrial capitalists find it possible therefore to take advantage of their preponderous economic position by raising the prices of their own industrial products while suppressing the prices of the agricultural products, and thereby effect their exploitation of the peasants. Along with the development of industry, this exploitation continues to become more and more amplified. If we use the method provided by statistics by converting both the prices of industrial products and the prices of agricultural products into price indices of the same base-period, and draw two separate curves to represent their respective progression, then we would see that, in the beginning, the disparity is very small; but then it becomes gradually expanded, with the two lines making the exact shape of a pair of open scissors. This is why it is called "scissors differential." In a capitalist society, "scissors differential" reflects exploitation of the vast ranks of the peasantry by the bourgeoisie.

In a socialist economy, the situation of prices of industrial products tending to become every higher and prices of agricultural products tending to become ever lower may also exist because of a variety of reasons. In the case of such a situation, we have usually inherited this term "scissors differential" and used it to describe it. In reality, the economic systems as reflected by the meaning of the "scissors differential" we say of the socialist economy and the meaning of the "scissors differential" of the capitalist economy have become already fundamentally different. The "scissors differential" of the capitalist economy describes how price indices of industrial products and agricultural products appear in a chart in the shape of a pair of open scissors; it reflects the exploitation of the vast ranks of the peasantry by the bourgeoisie. In a socialist economy, what determines whether or not there is any "scissors differential" and whether such "scissors differential" becomes ever widened or narrowed is, in terms of a criterion, not the price of products but the value of those products. For us, we can only compare the price with the value of industrial products in order to see whether it tends to become higher or lower, and also compare the price with the value of agricultural products to see whether it tends to become higher or lower, and, in this respective way, thereby determine whether between the two there exists any "scissors differential" and, if so, whether such "scissors differential" is becoming widened or narrowed. Under the condition when prices are stable but changes have taken place in the values of industrial and agricultural products, "scissors differential" may also appear. The "scissors differential" under socialism, in substance, reflects a price disparity in the exchange between industrial and agricultural products. It was Stalin who first viewed the question of "scissors differential" from the cost of products (part of value reflected in money) and thought that "scissors differential" was but a case wherein the peasant, when he sold his agricultural products, made less money but when he bought the industrial products he needed he had to pay more. Stalin said: "If 'scissors differential' is understood to be the difference between the price of agricultural products and the price of industrial products based on their

respective costs, then the situation pertaining to a 'scissors differential' would be as follows: without a doubt, the price of our industrial products at the time they are sold, compared to the price they are sold under other conditions, is still higher. This is because our industry is still very young and we must protect it from attack by outside competition; we must create conditions for its rapid development. Otherwise, it would be impossible for us to provide the peasant economy with a sufficient quantity of clothing and farming machines in good time. This situation serves to create disparity between the price of industrial products and the price of agricultural products and also have the peasant economy somewhat shortchanged."<sup>1</sup> Stalin also said: "In this regard, the situation of our peasants is this: the peasants not only pay to the state the ordinary taxes, that is, direct and indirect taxes, but when they buy industrial products they also have to spend more money because of the higher prices of those products; this is the first point. And when they sell their own agricultural products, they also make less money; this is the second point. These constitute an extra tax for the sake of developing the industry which serves the whole nation (including the peasants themselves)."<sup>2</sup> Today, we can only determine the "scissors differential" on the basis of the values of products, this is ordinarily rather clear. But some people nonetheless determine the socialist "scissors differential" on the basis of the prices of products, i.e., on the basis of whether or not there are price changes, taking "scissors differential," in such a case, directly as the relative increase in the price of industrial products, plus the relative decrease in the price of agricultural products. From this point of view, therefore, even if changes have taken place in the values of industrial and agricultural products, so long as their prices remain stable, no "scissors differential" will appear.<sup>3</sup> I think it is objective and scientific for us to determine "scissors differential" on the basis of the values of products, whereas to determine it on the basis of the prices of products is simply incorrect, because the factors which make up a price are very complicated, and they include certain other factors besides value.

Why does the "scissors differential" exist in a socialist society? Everybody knows that when a poor, backward country wishes upon achieving victory in revolution to realize industrialization, it is necessary for all the people of that country to work hard and to remain frugal so as to cumulate the needed capital. The surplus labor in agriculture is one of the important sources of capital for socialist industrialization which,

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1. Stalin: "Talk with a Delegation of Representatives of Foreign Workers," The Complete Works of Stalin, Vol 10, p 195.
  2. Stalin: "Plenary Session of the Central Committee of the Communist Party of the Soviet Union (Bolshevik): On Industrialization and the Grain Question," The Complete Works of Stalin, Vol 11, p 139.
  3. Refer to item on "scissors differential" in Encyclopedia of Terms and also explanation concerning "scissors differential" in Xu He, et al, eds., "Explanations of Terms in Political Economy."



apart from taxation as a form for its concentration under the state, may also pass through a price difference in the exchange between industrial products and agricultural products, i.e., through the "scissors differential" as a temporary channel for such concentration. Thus, the state is able to use the capital cumulated through such price differentiation in socialist industrial construction, in the development of science and culture, and in the consolidation of national defense. Just as Stalin said, this channel of concentration actually suggests "the levying of an extra tax on the peasants," "under present circumstances, we cannot but levy such a tax."<sup>1</sup> This is to say, during a given period after the triumph of socialist revolution, it suits the objective need of socialist economic development to obtain part of the needed capital from the peasants through the two forms of agricultural tax and "scissors differential" in the prices of industrial and agricultural products left over from history. Of course, this can only be a temporary measure. In the socialist economy, long-range existence of a sizeable "scissors differential" would be tantamount to taking eggs of a chicken by killing it, which is bound to cause stagnation in production and lead to a series of ill consequences.

The reason why, after liberation, our state has been able very smoothly to obtain part of our needed capital from the peasants through the form of the "scissors differential" is because there has been a historical continuity in the prices of all products. In old China, there existed long-term serious exploitation of the countryside by the cities, or, in other words, there existed a "scissors differential" between the prices of industrial and agricultural products. During the periods of our war of resistance against Japan and the war of liberation, in particular, this "scissors differential" conspicuously tended to expand. During the early years after liberation, we could not but take the price system that had come into being through long years of reactionary rule by the Juomintang as the starting point to launch our own work. Confronted by this price system, the party adopted a price-stabilizing policy; whatever prices were found to be during that early period, effort was made in the first instance to have all prices stabilized at their existing level. In 1952, after prices throughout the country were stabilized, the state started to readjust certain unreasonable prices. By 1958, the relative disparity in prices between the industrial and the agricultural products in our country, compared to the early years after liberation, was reduced by 25.5 percent, thereby restoring this disparity in prices to the level of the 7 years before our war of resistance against Japan, from 1930 to 1936.

The fact that we restored the disparity in prices between the industrial and the agricultural products to the level before our war of resistance against Japan by 1958 did not mean that we successfully eliminated the "scissors

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1. Stalin: "Plenary Session of the Central Committee of the Communist Party of the Soviet Union (Bolshevik): On Industrialization and the Grain Question," The Complete Works of Stalin, Vol 11 p 139

differential." This was because, first of all, "scissors differential" already existed in the exchange of industrial and agricultural products before our war of resistance against Japan. More importantly, during the several decades from the time before that war of resistance and now, the speed by which labor productivity was raised in industry has been far greater than that in agriculture. This was because the technical progress in industry has always been ahead of that in agriculture. Under such circumstances, the speed by which labor expense for the products of the industrial units decreased was also inevitably faster than that for the products of the agricultural units. In the case of several major industrial products such as fabrics and rubber shoes, the cost has already been greatly reduced compared to the days before the war of resistance, but their prices, on the other hand, have gone down very little. From liberation to the present, the prices of certain industrial products have been reduced, but those of others have not; in some cases, the prices not only have not come down, but have even gone up, or done so deviously. It has been very bad business for the peasants to use their grains to exchange for industrial products, especially new industrial products such as dacron. Generally speaking, the prices of industrial products are already far above their values. There is still a third situation, namely the changes that have taken place in agriculture since liberation. The economy of our country in the past was that of the small agricultural proprietor which had not been made capitalistic. Our agriculture was originally built upon a foundation of individual production, relying mainly on manual labor and draft animal farming. What was applied was limited to human refuse and urine and stable fertilizers; the consumption of bodily labor was great. The expense allocated for the instruments used in production made up only about 5 percent of the total production cost. In the past, the peasants had hardly any tradition in calculating their cost; it may be said that there was never any concept like cost in the minds of the peasants at all. What the peasants did calculate was limited to that part of the production process on which some money was spent.

This is the characteristic of our agricultural production in the past. After liberation, there was a transition from individual production to collective production in our agriculture, and also from manual labor gradually to mechanization. In cases where cost had not been calculated in the past, cost must now be added. Take the chicken-raising enterprise as an example: from the time when only old countryside housewives took the trouble to raise chickens to today's chicken farm where mechanized chicken-raising methods are used, cost has increased several times. Naturally, cost in future chicken-raising enterprises of even larger scale is bound to decrease, but this will happen only after a long process. In the countryside these recent years, capital construction in farming and irrigation has continued to develop, the extent of mechanization continued to be uplifted, and the use of chemical fertilizers and farming drugs also continued to increase. Since farming machines must be purchased, and so must chemical fertilizers and farming drugs in agricultural production, and money must be spent also on machine farming and irrigation effected

by machine-generated electric power, the cost of agricultural production must naturally also become correspondingly higher. According to investigation in Hebei Province, production expenses throughout the province increased 150 percent in the 10 years from 1965 to 1975, and the ratio of such production expenses also increased from 24 percent in 1965 to 33 percent in 1975. Although prices of agricultural products have been readjusted several times since liberation, generally speaking, the volume of increase in this regard has remained limited. This way, income from agricultural products remains naturally rather low, and among these products, income from grain and oil-bearing crops happens to be even lower and in some regions one even loses money in raising grain crops.

Then, how great is the "scissors differential" that exists in our country today? This question is rather complicated and requires a careful survey of data. But, from the fact that in the countryside some have abandoned agriculture to engage in commerce, or transportation, or auxiliary enterprises; from a comparison of the prices of agricultural products in the first, second and third category; from the level of industrial profit, from the prices in market trade and side views of this sort: we can see that a considerable "scissors differential" still exists in our country today. This is a rather serious question. The fact that our agriculture has long remained stagnant is directly related to the existence of an excessively big "scissors differential."

#### The Meaning of Vastly Raising the Price for Purchase of Agricultural Products

The Communique of the Third Plenary Session of the 11th Party Central Committee recommended that the grain purchase price, starting in 1979 when the summer grain is marketed, be raised by 20 percent and the price for the amount purchased above the quota be an additional 50 percent, and that the purchase price for cotton, oil-bearing and sugar crops, animal by-products, aquatic and forestry products and other farm and auxiliary products be likewise raised correspondingly step by step according to their respective conditions. This was an extremely wise measure. In order to reduce the "scissors differential" in the prices of industrial and agricultural products, we must resolutely make up our minds to vastly raise the purchase price of agricultural products--mainly to raise to a due level the price of grain crops. Today, the average income of the farming population for each person each year is less than one-third of that of the industrial population. For 20 years, the peasants' income has not only not increased but has even slightly decreased. This situation seriously frustrated and hurt the enthusiasm of the peasants in the development of their production. With the exception of a few regions where conditions have been relatively better off, the vast ranks of the peasantry can hardly have enough to eat or to wear after a year's toil. Insofar as the peasants are concerned, the benefit of raising the purchase price of agricultural products is direct and visible and touchable. With their income thus raised, the peasants not only can improve their livelihood but can also buy the means of production they need in agriculture, pay

for the water and electricity, and promote the realization of the Four Modernizations. Certain concerned departments and units still feel hesitant about raising the purchase price; there are reasons for this. A great deal is involved, indeed, and there are real difficulties. But if we never dare to make a move on grain purchase price, what are we going to do? If there is no move for a long time, there is bound to be an impact on the enthusiasm of the peasants in regard to production, an impact on the concerned departments and units in the thorough implementation of their economic accounting. This way, it would be very hard for our agriculture to get rid of its outlook of stagnation over these 20 years; the relationship between workers and peasants, and between the cities and the countryside, will remain tense; the ideal of accelerating the Four Modernizations will likewise remain unrealizable. The speed of socialist development should be higher than that of capitalist development. In the past, our speed has been fairly high; now it has slowed down. There are, of course, many reasons for this slowdown, but among them an important one is precisely irrational pricing. The relationship between production and price is dialectical, mutually causal. We cannot wait until production is well done before we raise the price, but must see that it has been precisely the extremely low price of agricultural products which affected the speed of development of our agricultural production. This is not only an economic question, but also a political question. To raise the price of agricultural products to the level they deserve is in the basic interest of the vast masses. Now, the time for solving this problem is ripe. We have already smashed the "gang of four." A situation where great strides are being made has appeared in industrial production. In the work of adjusting the prices, we have acquired nearly 30 years of experience. All of these are advantageous conditions for a readjustment of unreasonable prices in a resolute and expeditious manner. The Third Plenary Session of the 11th Party Central Committee's firm recommendation of a vast increase in the purchase price of grain and other agricultural products this time was entirely correct strategically, and entirely in accord with the close interest of hundreds and thousands of households in the countryside.

The Communique of the Third Plenary Session also made a recommendation to vastly raise the price of the amount of grain purchased above the quota in the nature of a reward, that is, by addition of another 50 percent of raise to the 20 percent already raised in purchase price as the extra-purchase price. This is to say that the state purchases the amount above the quota at a price 80 percent high than the prevailing grain purchase price. This is a very important measure. In 1971, already, we had effected the measure of adding 30 percent to the price for the amount of grain produced and purchased above the quota. The 1976 total of price increase, calculated according to the average amount of purchase, remained generally less than 14 percent of the average price increase in grain purchase. Because the volume of this price increase for amount purchased above the quota was too small, it did not play a very significant role. In the case of this amount purchased above the quota, we should gradually achieve an exchange in equal value, i.e., to raise the above-quota



purchase price gradually to the amount corresponding to the cost of social labor in grain production. The Third Plenary Session of the 11th Party Central Committee held that in a fairly long period from now on, the target of state purchase of grain should be stabilized on the basis of the "fixed five-year quota" of 1971-75 without change, allowing absolutely no purchase above the quota. A vast price increase for purchase above the quota is bound to arouse the interest of the peasants in increasing their production above that quota. As production is done well, the proportion of the purchase quota is bound to become smaller and smaller in relation to all that is produced, while at the same time the amount purchased above the quota is bound to become proportionately greater and greater. This way, there will be an increasingly greater proportion of the grain produced by the peasants which can be sold at the higher price. This would greatly arouse the enthusiasm of the peasants in the production of grain.

The recommendation of the Communique mentioned only the grain purchase price and price for the amount purchased above the quota, with the selling price of grain entirely unaffected. The good point of this measure is that it is practical and feasible, on the one hand making no change in the original rate of agricultural tax, on the other hand making no change in the original selling price either. The impact on all concerned, therefore, is relatively small, yet it can effectively achieve the result of increase in production.

#### Why It Is Necessary To Adopt a Dual Measure in the Reduction of the "Scissors Differential"

In order to reduce the "scissors differential" in the prices of industrial and agricultural products, it is necessary to rely mainly on the vast increase in the purchase price of agricultural products. But, along with this, it is necessary to reduce as much as possible the price of industrial products for agricultural use, so that a most effective and correct dual measure is put into practice. For a long time, not a few comrades thought that the reduction of the "scissors differential" could only rely in the main on a reduction of the price of industrial products for agricultural use; as for the purchase price for agricultural products, especially for grain, it is liable to involve too many things if it is changed, and hence it should not be changed lightly. Such an opinion appears very likely incorrect. The price of industrial products for agricultural use should of course be reduced on the basis of a reduction of their cost; this would actually be of real benefit to the peasants. But, if we attempt to reduce the "scissors differential" only through a reduction of the price of industrial products for agricultural use without raising the purchase price of agricultural products, it would be impossible for us to find a fundamental solution to the problem. This is because: first, there is a great difference in the purchases of the means of production by the different regions and districts and different communes and brigades. A reduction of the price of industrial products will give more benefit to the rich regions and districts and rich communes and brigades which are in possession of greater capital for such purchases, but the benefit afforded to the poor regions and districts and poor communes and brigades will be minimal.

If this practice should be allowed to continue for a long period, the difference between such rich and poor regions and districts, communes and brigades will become even further aggravated. Secondly, in the cost of agricultural products, the industrial products for agricultural use produced by industry make up only about 30 percent as a rule. For this reason, even if the reduction of price of the industrial products for agricultural use reaches 15 percent, that would effect a reduction of the cost of agricultural products only up to 4.5 percent or so. Thirdly, under present conditions agricultural production remains greatly affected by factors such as natural conditions and the quality of labor. Therefore, there must be concrete analysis as to what effect will come from taking up the factor of industrial products for agricultural use. Certain problems certainly cannot be solved by price policies. For instance, in agricultural production, when farming machines and electric power are used in place of manpower, the outcome is profitable economically only to those communes and brigades whose manpower has outlets elsewhere, but, to those whose manpower is otherwise without such outlets, it will only mean increased expenditure and reduced income. Under such circumstances, even if there is a reduction in the price of industrial products for agricultural use and in the level of fees to be collected for such use, it will not be sufficient to stimulate the interest of the communes and brigades in taking advantage of those industrial products for agricultural use. Besides, taking advantage of industrial products for agricultural use must be predicated upon certain conditions. In some regions and districts, conditions for effective irrigation are less propitious. After chemical fertilizers are applied, their fertilizing effect is usually found to be rather limited, reaching in some case even less than 10 percent. In some arid land, only hydrogen carbonate fertilizers are used, which the peasants would simply call "wind-breaking fertilizers" /i.e., stinking very much but not at all fertilizing/. In such a case, the problem can certainly not be solved by some token reduction of the price of chemical fertilizers of this sort. The remedy is to improve irrigation facilities so as to amplify the effect of such chemical fertilizers. This shows that for real reduction of the "scissors differential," it is necessary to adopt a two-prong measure of relying basically on raising the purchase price of agricultural products on the one hand, and reducing in an auxiliary way the price of industrial products for agricultural use on the other hand. It would be impossible to achieve any fundamental solution of the problem if we attempt merely to reduce the "scissors differential" through a reduction of the price of industrial products for agricultural use.

As for the extent to which the price of industrial products for agricultural use is to be reduced, the Communiqué of the Third Plenary Session of the 11th Party Central Committee recommended that, in the source of 1979 and 1980, a reduction of 10-15 percent be effected. This extent of reduction is appropriate in very practical terms. There is a potential in a reduction of the cost of industrial products for agricultural use. We must seriously enforce increasing productivity and strict frugality, striving hard to bring down such cost. On the other hand, we must also see that the price of the products of basic industries

such as steel, coal, electricity, etc., needed in the production of industrial products for agricultural use is by no means easily susceptible to any reduction. Among these, the price of coal not only is not susceptible to reduction but tends even to increase somewhat from now on. Therefore, it is not very likely that the cost of industrial products for agricultural use can be vastly reduced. The volume of 10-15 percent reduction as recommended by the Communique is fully relevant.

#### An Exploration of the Next Step in the Reduction of the "Scissors Differential"

The reduction of the "scissors differential" must be attempted in several orderly steps according to plan. My understanding of the recommendation made in the Communique of the Third Plenary Session of the 11th Party Central Committee is but the first step in our march in that direction. After the increase in purchase price for grain and other farming and auxiliary products is put into practice, and after a vast increase in agricultural production is realized, then there would be a need to coordinate with other aspects of planned development in the nation's economy by reducing the two different grain prices (purchase price and price for the amount purchased above the quota) into a single one as a transitional measure. Because it does not speak very well to have to accord two different prices for very long to a single kind of grain; such dual-track in the price system is bound to bring difficulties to the administration. Therefore, once conditions are found to be ripe, there would be need to change the two prices to one single price by raising the originally lower purchase price to the level of the price for the amount purchased above the quota, thus unifying these two purchase prices. There is need also to readjust the purchase and selling prices of agricultural products, and no dislocation should be allowed. At present, in order not to expand the extent of involvement, the approach of raising only the purchase price, but not the selling price, in the case of grain is perfectly correct. But, from the longer-range point of view, it does not tally with the requirement of price laws to raise only purchase price and not selling price. A sustained raising of the purchase price for agricultural products to a vast extent without at the same time raising their selling price is bound to lead to putting the purchasing and the selling prices in a topsy-turvy condition. This purchasing and selling prices being in a topsy-turvy condition is in turn bound to lead to many consequences; First, it is disadvantageous to the economic accounting of the units that must sell those products /they have purchased at a high price/. Purchasing and selling prices being in a topsy-turvy condition is bound to let the loss sustained by the commercial departments through mismanagement overshadowed by the loss commanded by policy, and thereby discourage the personnel concerned from making relevant efforts to improve their management. Second, this same situation will result in waste. For instance, in the eastern region of Henan Province there appeared in recent years a rather abnormal situation wherein people ate dried up sweet potatoes and burned them as fuel at the same time. As the underlying cause was investigated, it came to light that, while part of the reason /that sweet potatoes were used as fuel/ was due to the fact that these localities lacked sufficient fuel,

another part, however, had to do, quite naturally, with the extremely low selling price of sweet potatoes. Third, in the case of grain, purchasing and selling prices being in a topsy-turvy position tends to make it tempting for the peasants to sell their grain /to the state/ at a higher price as much as possible, and then buy it back from the state at a lower price again. For these reasons, as we gradually raise our purchase price for agricultural products in the future, we must at the same time correspondingly raise our selling price, too. After the selling price of agricultural products, especially grain, is raised, the ill effects of its impact on the livelihood of the workers may be remedied by taking out part of the capital contribution levied on simultaneously raised wages to be used as grain subsidies. For instance, the state, when raising the workers' wages, may put up 10 billion yuan and explain at the same time that of this amount 4 billion yuan would be used as grain subsidies. It should be acknowledged that this measure might arouse a certain degree of instability in the national economy. But such instability cannot be avoided. If we are going to solve problems, we must be willing to pay the price. The reason multi-step measures are to be adopted is precisely because of an underlying intent to reduce the volume and extent of such instability. Some people are apprehensive that, when the selling price of agricultural products is raised in the future, the consequent question of chain-reaction price-raising requirements might be aroused. Raising the selling price of agricultural products will, of course, affect the cost of industrial products; even when their cost increases, there would be no need to raise their selling price, or there would be need to raise such price only very slightly. In a word, the instability caused by price readjustment respecting agricultural products will return to normal again after a period of time. There has been such experience both in our own country in the past and in foreign countries. In the final analysis, we must shoulder the responsibility for the troubles that may come from price raising for the sake of promoting agricultural production and carrying out economic accounting.

Reducing this "scissors differential" has already been established as the state's official policy. With respect to the first step in this regard, the Communique of the Third Plenary Session of the 11th Party Central Committee has already made concrete recommendations. The purpose of my presenting my thinking concerning how this question of the "scissors differential" may be further solved in the future here is to draw better suggestions with my rudimentary reflections, i.e., so that more comrades will be aroused to participate in the discussion of this question and thereby make its reasonable solution possible.



## Reducing the 'Scissors Differential'

Beijing GONGREN RIBAU [WORKERS DAILY] in Chinese 4 Jul 79 p 4

[Article by Yun Chun [0061 2504]: "Why Must We Reduce the Scissors Differential in the Prices of Industrial and Agricultural Production?"]

/Text/ By scissors differential is meant an unreasonable "scissors"-shaped price disparity between industrial products and agricultural products when their respective prices are compared to each other, where, as matters usually stand, the price of industrial products tends to be higher whereas the price of agricultural products tends to be lower.

This scissors differential in the relative prices of industrial and agricultural products is something left over by the old society. Before liberation, what this scissors differential reflected as the exploitation and plunder perpetrated against the broad masses of the peasants by foreign imperialism and our own capitalist classes through a disparate exchange between differently priced industrial and agricultural products; it reflected the confrontation relationship between industry and agriculture, and between the cities and the countryside. Since liberation, because public ownership over means of production has been established, even while it still continues to reflect a disparate exchange between differently priced products, its nature has already undergone a fundamental transformation. There are two ways to solve this scissors differential in the prices of industrial and agricultural products; gradually raising the price of agricultural products and lowering the price of industrial products; and uplifting labor productivity. Since liberation, our state has at different times adjusted and readjusted the prices of both industrial and agricultural products, reducing the price of industrial products quite a bit. The scissors differential in the exchange between industrial and agricultural products left over by pre-liberation days has been reduced year after year. But, because of the sabotage of Lin Biao and the "gang of four" that lasted a long period, the already reduced scissors differential became expanded again. The State Council this year has decided to raise the purchase prices for grain, cotton, oil-bearing crops, pigs and other principal farm and auxiliary products of the like to a greater extent. This precisely aims at reducing the scissors differential between industrial and agricultural products.

Reducing the scissors differential in the prices of industrial and agricultural products has very important implications for us. First of all, it should be able to cumulate capital for the development of agricultural production at a far greater speed. During the recent years, a strange phenomenon has appeared in the country's agricultural production operations. In some communes and brigades, the production increased but the income did not, or while production increased, income even decreased. Not a few state-managed farms sustained serious losses and required state subsidies. Consequently, capital for expanding reproduction became seriously deficient

in many communes and brigades, and only simple reproduction could be maintained. Causes contributing to such a situation have been many, naturally, such as mismanagement, etc., but a very important one among them was the fact that the price of industrial products tended to be very high, while the price of agricultural products tended to be very low. At present, even though certain means of production intended for sale in the country are sorely needed in production management there, large quantities of them are still being piled up; apart from the reason that their quality happens to be low, the main cause is that their prices are simply beyond the capabilities of the communes and brigades concerned. Appropriate readjustment of the relative prices of industrial and agricultural products to enable such communes and brigades to increase their income not only will serve to solve the question of capital which is sorely needed in the development of agricultural production so as to expand the scale of production year after year and greatly increase the production of farm and auxiliary products by great quantities, but also to open up extensive markets for industrial products marketable in the countryside. Secondly, readjustment of the relative prices of industrial and agricultural products and reduction of their scissors differential will enable agriculture to rely on its own efforts and cumulate its necessary capital internally and also let every production unit and individual see clearly the interrelationship between development of production and increase in income. In order to enable the millions of peasants to understand the need to increase their income even further, and the reason why their production must be developed even faster. Thirdly, a rational readjustment of the relative prices of industrial and agricultural products and a reduction of their scissors differential will likewise benefit a reduction in the differences between the workers and the peasants, between the cities and the countryside, and help consolidate the worker-peasant alliance.

This task concerns the whole situation of our national economy as well as the personal interest of each individual; it must be done well in an active yet firm manner on the basis of correctly reflecting objective economic laws and through pertinent planning in our national economy. From the standpoint of the state, readjustment must be timely carried out with respect to the scissors differential in the prices of industrial and agricultural products without waiting until it seriously affects certain departments' and certain units' production development or the enthusiasm of the individual producers themselves; it is necessary to reduce to the minimum certain negative consequences resulting from such price readjustment. From the standpoint of the individual worker, it is his obligation to pay attention to the whole situation, to look forward, and treat correctly the temporary effects brought to their life by such a price adjustment. At the same time, it is his duty to see that the improvement of the life of a worker must be built on the basis of production development, especially agricultural production development. Therefore, from the long-range point of view, as a the result of a readjustment of the scissors differential, not only will the income of the peasants increase, but the livelihood of the city workers will also improve.

## NATIONAL ECONOMIC POLICY

### JOURNAL DISCUSSES RELATIONS BETWEEN CONSTRUCTION, CLASS STRUGGLE

Beijing JINGJI YANJIU in Chinese No 7, 20 Jul 79 pp 24-27 HK

[Article by Wu Liangping [0702 0081 1627]: "Economic Construction Is a Fundamental Task of the Dictatorship of the Proletariat"]

[Text] Over the past 30 years since the founding of the People's Republic of China, under the leadership of the Chinese Communist Party, the people of the whole country, relying on their own efforts and waging an arduous struggle, have achieved great success in socialist revolution and construction. As a result the politically decadent and economically backward old China has undergone an earth-shaking change. It is not difficult to understand the significance of the existence and further development of great socialist China to world revolution. In order to build our great socialist motherland better, we must carry out a new long march. In order to carry out a new long march successfully we must seriously sum up our experiences and lessons.

Practice over 30 years has proven that as long as we uphold the socialist road, the dictatorship of the proletariat, the leadership of the Communist Party and Marxism-Leninism-Mao Zedong Thought, maintain the political situation of stability and unity, observe the objective laws and unremittingly grasp economic construction as the central task of the party, our cause will certainly grow and flourish.

In our economic construction over the past 30 years, we have basically formed an independent system of the national economy. In the first five-year plan period the total value of our industrial production averaged an annual increase of 18 percent and the total value of agricultural production increased annually by 4.5 percent. During the 5 years under review, the average wages for staff and workers increased by 42.8 percent and the peasants' income averaged an increase of 27.9 percent. This rate of increase was higher than that for many capitalist countries during the same period. This was proof of the superiority of the socialist system.

However, the development of things is always tortuous. During the next 20 years our national economy failed to grow steadily; on the contrary, sometimes it became stagnant and declined. On the eve of the downfall of the "gang of four," the national economy almost reached the brink of collapse. Since the "gang of four" were smashed our national economy has been restored and developed at a great rate. It is important to look at the rise and fall in our national economy over the past 30 years. The whole party and nation must sum up, in a matter-of-fact way, our successful experiences achieved during the past 30 years and learn from the failures. It will be of pressing, realistic significance to our carrying out a new long march successfully and realizing the socialist modernization of our country. Personally I believe that over the past 30 years, we did not always handle the relationship between economic construction and class struggle properly and we failed to grasp economic construction as the party's central task. This must be an important reason for the unsteady development of our economy.

The fundamental task of the proletariat after wresting political power was clearly expounded by Marx, Engels, Lenin, Stalin and Comrade Mao Zedong. Penetratingly studying the relevant teachings of the revolutionary teachers, we will acquire an ideological weapon for correctly dealing with this problem.

Marx and Engels pointed out in their "Manifesto of the Communist Party": "The proletariat will use its political supremacy to wrest, by degrees, all capital from the bourgeoisie, to concentrate all instruments of production in the hands of the state, that is, of the proletariat organized as the ruling class, and increase the productive forces as rapidly as possible." ("Manifesto of the Communist Party," "Selected Works of Marx and Engels," Vol 1 p 272) Pointing out the primary task to be fulfilled by the proletariat after wresting away political power, Marx and Engels mentioned two points: 1.) The proletariat must wrest all capital from the bourgeoisie. This will involve desperate bourgeois resistance to this seizure and its suppression by the proletariat. 2.) The productive forces must be increased as rapidly as possible. In 1919 Lenin pointed out in clearer terms: "In order to achieve victory and build and consolidate socialism, the proletariat must fulfill a two-fold or dual task: first, it must, by its supreme heroism in the revolutionary struggle against capital, win over the entire mass of the working and exploited people; it must win them over, organize them and lead them in the struggle to overthrow the bourgeoisie and utterly suppress any resistance. Secondly, it must lead the whole mass of the working and exploited people, as well as all the petty-bourgeois strata, onto the road of a new economic construction, onto the road to creating a new bond, a new labor discipline, a new organization of labor, which will combine the last word in science and capitalist technology with the mass association of class-conscious workers creating large-scale socialist production.



"The second task is more difficult than the first, for it cannot possibly be fulfilled by single acts of heroic fervor; it requires the most prolonged, persistent and difficult mass heroism in plain, everyday work. But this task is more essential than the first, because, in the final analysis, the deepest source of strength for victories over the bourgeoisie and the sole guarantee of the durability and permanence of these victories can only be a new higher mode of social production, the substitution of large-scale socialist production for capitalist and petty-bourgeois production." ("A Great Beginning," "Selected Works of Lenin," Vol 4 p 12)

The first and second tasks mentioned by Lenin we now call class struggle and economic construction. What Lenin was driving at was very clear: After the proletariat wins political power, with political power gradually stabilized economic construction will be more important than class struggle and should be our fundamental task. Such is the great source of strength of the proletariat and is the only guarantee of victory of socialism over capitalism. This does not mean denying that class struggle is still an important task for us. It means that since the proletariat has established its political supremacy and expropriated the exploiters, under such new historical conditions class struggle should be subordinate to the fundamental task of economic construction. The ultimate aim of revolution is to set productive forces free. If after overthrowing the political power of the bourgeoisie and basically eliminating private property we do not shift the focal point of struggle to economic construction, does it not mean we have forgotten the aim of revolution? Therefore, I believe that before the proletariat wrests political power and eliminates the private property of the exploiting class, class struggle is certainly our central task. There is no doubt about this. But, after the proletariat has wrested political power and basically transformed the private property of the laborers and established socialist communal relations of production by eliminating landlord and bourgeois private property, it will be necessary to increase social productive forces and raise the material and cultural levels of the broad masses of working people as rapidly as possible because this represents the fundamental interests of the working people. Consequently, shifting the central task of our party to economic construction conforms to the law of development from the old historical phase to the new one. There is also no doubt about this.

Practice after the victory of the October Revolution in the Soviet Union and after victory of the revolution in our country has proven that so long as the political party of the proletariat deeply recognizes and tightly grasps this center, that is, economic construction, our cause will continue to grow and flourish and the dictatorship of the proletariat will become more stable. Once we deviate from this center, our cause will certainly suffer.

To be sure, the development and change of anything will go through a certain process. Shifting our central work is no exception. As a matter of fact, at the initial stage of the proletarian seizure of power, the bourgeoisie and other reactionary forces launched frantic counterattacks. For this



reason, suppression of their resistance had to be our central task. But in the mid-1950's our central task began to shift. In the period thereafter we seized upon the central task of economic construction with the result that the national economy developed at a great rate and we overfulfilled the first five-year plan ahead of schedule. The development rate of our industrial and agricultural production was something seldom witnessed in the world at that time.

We do not deny that acute class struggle exists in the process of shifting this central task. Moreover, if the proletariat does not win a decisive victory it will be unable to shift the central task. This means that we must properly handle the relationship between class struggle and economic construction and wage the necessary and appropriate class struggle centering on this central task to insure and promote the fulfillment of the central task of economic construction. It is wrong to think that economic construction may draw away from class struggle during the period of the dictatorship of the proletariat. But, conversely, if class struggle draws away from the central task of economic construction and does not serve this central task, economic construction will inevitably be adversely affected and even undermined and the progress of socialist construction will be retarded. From the Marxist point of view, class struggle acts upon social production in two ways: 1.) Protecting and promoting it. 2.) Undermining and hindering it. This demands that in practice the political party of the proletariat place class struggle and social production in their proper positions and properly handle the relationship between the two. The agrarian reform movement and the movement to suppress counter-revolutionaries launched by our party in the early 1950's and the three-transformation movement launched in mid-1950's gave a powerful impetus to the growth of the national economy at that time. But, subsequently for a long period of time, a group of people divided class struggle from economic construction, set one against the other and denied economic construction as the central task of our party. As a result, not only was our economic construction undermined but the political situation marked by stability and unity was disrupted. We should recognize that properly handling the relationship between class struggle and economic construction has to go through a process of practice, knowledge, more practice and more knowledge. In this process, normally there will be twists, turns and reversals. In particular, it should be realized that with the political power of the proletariat stabilized, large-scale violent class struggle has in the main come to an end. However, class struggle in the ideological sphere becomes more complicated and at times acute and protracted. We still lack knowledge and experience of class struggle in this new situation. From the Marxist point of view, social being determines social consciousness, and only after the proletariat has laid a strong foundation of the socialist economy is it possible to eliminate the material conditions on which the bourgeois ideology is based and to triumph over the bourgeoisie completely in the ideological sphere. But this cannot be achieved by one or two political movements. So, the more complicated and acute class struggle is in the ideological sphere, the more it is necessary to make a success of economic construction. Successful economic construction will lay a strong material

foundation for the proletariat to wage this new form of class struggle. At the same time, with the people's living condition constantly improved, our mass foundation will be reinforced and we will be placed forever in an invincible position. However, for a long time in the past we did not do this. When the objective situation changed we even one-sidedly stressed class struggle and deviated from the central work. The strength of our party to lead the masses was dispersed in the struggle against nature, and the national economy failed to achieve sustained and rapid development.

In short, after the proletariat has wrested political power and basically eliminated private property, the relationship between class struggle and economic construction should be as follows:

1. Socialist economic construction is the central task occupying the leading position. The political party of the proletariat and the state under the dictatorship of the proletariat must use their energy to increase the social productive forces to consolidate the communal ownership, raise the material and cultural levels of the people and strengthen national defense. There must not be the slightest hesitation and vacillation in this.
2. Class struggle must be subordinate to economic construction. The merits and demerits of any form of political movement must be judged by their results in economic construction. Economic construction is the main feature of class struggle waged by the proletariat under the new historical conditions of the dictatorship of the proletariat, and is the greatest politics.
3. Our central work may change according to the development and change of the objective situation. When the destiny of the party and the state is threatened by class enemies at home and abroad, that is, when Lin Biao and the "gang of four" frantically usurped party leadership and seized power and when imperialism and other international reactionaries impose war upon us, class struggle and political struggle may temporarily become our central task. However, generally speaking, we must take economic construction as our central task.

For various reasons, we have not consistently done this since the founding of our republic. It was at the 3d plenum of the 11th party congress that it was proposed anew that the center of our party work be shifted to socialist modernization. This will be of decisive significance to the rapid development of the social productive forces from now on. What a heavy price our party and people have paid for this experience, and what a tortuous road we have traversed!

The socialist revolution and construction we are now carrying out are a great, formidable cause unprecedented in human history. The proletariat has always taken it as its ultimate aim to liberate and increase the social productive forces and realize communism. We should take socialist economic construction as the fundamental task and central work for the era of the dictatorship of the proletariat and carry it through to the end. The world situation has undergone great changes over the past 10 years and

more. Development of science and technology has enabled the economy of some capitalist countries to make considerable development. Compared with the developed countries in the world, our production level is much lower. Every practical and realistic comrade recognizes this fact. The struggle of the two superpowers for supremacy is increasingly intensified and the factor of war is obviously growing. Confronted with this reality, how can we refrain from concentrating our energy on socialist construction? "The one who falls behind will get a thrashing"--this is an immutable truth. If we do not do everything in our power to develop the national economy and accelerate the process of the four modernizations in accordance with the resolution adopted by the 3d plenum of the 11th party congress, we shall unavoidably land up in a passive position and get beaten. For this reason, all communists, state cadres and revolutionary people must, in the interest of our country and nation and for the well-being of our future generations, uphold and implement the resolution adopted at the 3d plenum of the 11th party congress and strive to shift the central work of our party to socialist modernization.

In its struggle for political power, our party armed with Marxism-Leninism-Mao Zedong Thought, went through numerous difficulties and hardships and made great sacrifices, and eventually it triumphed over all enemies and achieved its aim. During the 30 years after our party wrested away political power, it has likewise gone through numerous difficulties and hardships and paid a heavy price. Eventually it triumphed over all enemies at home and abroad and inside and outside the party and achieved a great success. Our party has summed up experiences and lessons and begun a new long march. In the 20 to 30 years from now on, our achievements will certainly be greater. Under the leadership of the party Central Committee headed by Comrade Hua Guofeng and under the guidance of Marxism-Leninism-Mao Zedong Thought, the magnificent prospects are stimulating and encouraging us to advance along the road of socialist modernization. Our objective will certainly be achieved and can certainly be achieved!

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## ECONOMIC PLANNING

### ECONOMIC JOURNAL DISCUSSES COORDINATING PLANNING, MARKET

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[Article by Liu Chengrui [0240 5320 1212], Hu Naiwu [4762 1722 1314] and Yu Guanghua [8090 0020 2440]: "Coordinating Planning With the Market Is the Basic Means for Reforming China's Economic Management"]

[Text] The main emphasis of party work has been shifted to socialist modernized construction. This is an important strategic decision of our party in fulfilling the general task of the new period. Economic management must be modernized if we want to fulfill the four modernizations. Since the founding of our country, we have gathered a number of experiences and achieved great successes in the field of economic management. However, due to the lack of sufficient experience and the disruption and destruction brought by Lin Biao and the "gang of four" in particular, there are still many problems in economic management. This increasingly obstructs the development of the productive forces. To speed up the fulfillment of the four modernizations, the reform of the present economic system is of top priority on our agenda. We must conscientiously sum up the positive and negative aspects of our 30 years of experience in economic management work according to the basic principles of Marxism-Leninism. Furthermore, we must study the experience of economic management abroad to establish a scientific economic management system which is suitable for the conditions of our country. What should be the path and general orientation of our country's reform in economic management? This is the problem which should be clarified first. This article intends to express some tentative views on this subject.

#### I

How should the socialist economy be managed? This is not determined by the subjective will of man. Rather, it is determined by the objective economic conditions and economic laws of the socialist stage. In the criticism of Prondhon, Marx once said: "In fact, only those who have no knowledge of history will be ignorant of the fact that at any time, kings cannot but obey the economic conditions and they have no command over economic conditions." ("The Poverty of Philosophy," "Collected Works of Marx and Engels," Vol 4, p 121) All economies have their own



law of motion. In economic management man can only adapt to the objective economic conditions and work according to the existing economic laws. Only thus can he achieve the expected results. Otherwise, he will be penalized by the laws themselves. The existing economic management system of our country has certain shortcomings and defects. This includes an overconcentration of power, the prevalence of management by pure administrative means, the lack of internal economic motivation in the enterprises, the lack of coordination among supply, production and marketing, the disregard for economic results, serious waste, poor quality and high prices, limited varieties of goods, difficulties in improving technology and so forth. In the final analysis, this is due to the incompatibility of this economic management system with the economic conditions and economic laws of the present socialist stage. Therefore, in order to define the orientation and path of reform of the economic management system, we must first of all have an overall and correct understanding of the socialist economy at the present stage. For a long time, the socialist economy has been regarded as a planned economy. It has not been regarded as a commodity economy at the same time. Thus, the socialist economy and the commodity economy are regarded as mutually exclusive. This viewpoint is theoretically groundless and harmful in actual practice. The various shortcomings in our economic management system are all related to a disregard for the commodity economy. It must be admitted that the system of public ownership in the underdeveloped stage of socialism includes not only the planned economy but also the commodity economy. On the basis of such an understanding of the socialist economy at the present stage we believe that the fundamental path of our economic management reform is the integration of planning and the market.

Why do we say that the socialist economy of our present stage is both a planned economy and a commodity economy?

The emergence of a planned economy is preconditioned by the socialization of production and the public ownership of the means of production. The socialist economy is a highly socialized economy built upon the foundation of public ownership of the means of production. Any kind of social production based on the division of labor, objectively requires that the various departments allocate their means of production and labor forces according to a given proportion. This is especially so with socialized mass production. There is a profound contradiction between capitalist private ownership and the social nature of production. Distribution of the total social labor among various departments is automatically adjusted by the market and the law of value. The proportion of the objective needs of social reproduction can only be realized through a series of fluctuations. Therefore, anarchy in the social production of the whole society and cyclical economic crises are the inherent characteristics of capitalism. Public ownership of the means of production has banded the various departments, enterprises and regions of the national economy into a unified entity upon the foundation of an identity of basic interests.



The laborer and the means of production are thus directly integrated. All productive and management activities are oriented toward the same goal, that is, to satisfy the public and individual needs of the masses. As a result, the socialist economy based on public ownership can develop schematically and proportionally according to the needs of social production. Engels pointed out that once society is in possession of the means of production, "a socially planned regulation of production in accordance with the needs of the community and each individual takes the place of the anarchy of social production." ("Anti-Duhring," "Selected Works of Engels," Vol 3 p 319) In this way, the law for the schematic and proportionate development of the national economy emerges upon the foundation of public ownership of the means of production. According to the demands of this law, the socialist economy not only is capable but must develop schematically and proportionally. This is a manifestation of the superiority of the socialist system. This is exactly what we mean by a socialist economy is a planned economy and a planned economy is the basic characteristic of socialist economy. However, we must also see that commodity production and commodity exchange still exist in the socialist stage. Therefore, a commodity economy is also a basic characteristic of a socialist economy.

Marx and Engels once postulated that socialism would gain its first victory in the developed capitalist countries. Since both capitalist industries and agriculture were fully developed in these countries, all the means of production can be confiscated by the whole society after the seizure of power by the proletariat. This will naturally lead to the abolition of commodity production. Therefore, in their writings, they always regarded planned regulation of social production as the basic characteristic of a socialist economy. Revolutionary practice since then had transcended their original postulations. The socialist revolution gained its first victories in the comparatively economic backward countries. In these countries, it is unavoidable for a commodity economy to continue its existence before and after the socialist transformation of all the means of production. Based on the revolutionary practice of the Soviet Union, Lenin affirmed the necessity for commodity production and exchange. This led to his proposal of the New Economic Policy which he integrated with the realization of the country's centralized economic planning. He said: "The New Economic Policy does not mean changing the centralized national economic plan or transcending the sphere of this plan; rather it is changing the method for the realization of this plan." (Lenin, "To G. M. Krzhizhanovsky," "Collected Works of Lenin," Vol 35 p 534) Stalin further developed the ideas of Lenin. In his book "Economic Problems of Socialism in the USSR," Stalin analyzed the reasons for the existence of socialist commodity production and the law of value in the socialist economy. (Today, it seems that we have not given it enough emphasis.) He believed that socialist commodity production is basically different from capitalist commodity production. It "can never develop for the sake of capitalist production. Furthermore, it is bound to serve the cause of the development and consolidation of socialist production together with its 'currency economy.'" (Stalin, "Economic Problems of Socialism in the USSR," People's Publication House, 1961 p 13) In the course of our

country's socialist construction, Comrade Mao Zedong criticized the fallacy of advocating the abolition of commodity production and exchange put forward by Chen Boda. He clearly pointed out that the abolition of the commodity economy has in reality expropriated the peasants. After the socialist transformation has been basically completed, we still have to use commodity production and exchange to unite the 500 million peasants in the service of socialist construction. From the above discussions by Lenin, Stalin and Comrade Mao Zedong, it is quite obvious that a socialist economy cannot be divorced from a commodity economy. It does not tally with the actual situation to regard a socialist economy as merely a planned economy and deny that it is a commodity economy. This is not a complete picture of the nature of a socialist economy.

Some comrades believe that each kind of economy can only have one basic characteristic. They argued that the nature of things will be confused if a socialist economy possesses the two basic characteristics of a planned economy and a commodity economy at the same time. We disagree with this view. It will not confuse the nature of things to reveal the various basic characteristics of a certain kind of economy. It can only help people acquire a deeper and more complete understanding of the nature of things. If we proceed from reality and base our understanding on the original state of things, we must accept that the socialist economy possesses the two basic characteristics of a planned economy and a commodity economy at the same time. As a basic characteristic, a planned economy reveals the nature of a socialist economy from the perspective of its distinction from a capitalist economy; whereas a commodity economy reveals the nature of a socialist economy from the perspective of its distinction from a communist economy. There is important theoretical and practical significance to grasping hold of these two basic characteristics. First, the problem of a commodity economy concerns the success and failure of the socialist revolution and socialist construction. Both in 1958 and during the cultural revolution, one of the most important aspects of the "ultraleftist" line in the economic front advocated by those false Marxist political swindlers--Chen Boda, Lin Biao and the "gang of four"--was the distortion of the Marxist theory on commodity and currency. They vilified the commodity economy of socialism and advocated the abolition of commodity production and exchange. Their criminal aim was to bring about the disintegration of the worker-peasant alliance and destroy the socialist economic system so as to prepare the conditions for their usurpation of power and the restoration of capitalism. Thus it is clear that regarding a commodity economy as the basic characteristic of a socialist economy will prevent any artificial and premature abolition of commodity production. This helps consolidate the socialist economic system. Second, regarding a commodity economy as the basic characteristic of a socialist economy causes people to attach greater importance to the law of value, the market and economic management by economic means. Comrade Mao Zedong pointed out that the principle of value "is a great school. Only by using it can we educate our several tens of millions of cadres and several hundreds of millions of people. Only then can we build up our socialism and communism. Otherwise, everything will be impossible." (From the speech by Comrade Hua Guofeng delivered at the National Conference of learning from Dazai in trade and finance, 7 July 1978). Since the commodity economy will

unavoidably continue to exist after the socialist transformation of the means of production has been basically completed, the socialist economy should be managed according to the law of commodity economy, that is, the law of value. Furthermore, the objective economic connection of social reproduction or the proportion of reproduction has to be realized through the exchange of equal value and the market under the guidance of centralized economic planning. Those who disobey the objective laws or use mere administrative means in economic management will be penalized. In reality, since we have not attached adequate importance to the law of value and have not fully utilized the market, we have already paid dearly for it.

Is it artificially enlarging the sphere of socialist commodity production and exchange to say that a socialist economy is a commodity economy? No. The existence of a socialist commodity economy has its own objective inevitability. The extent of its sphere is not determined by the subjective view of man but by the objective economic conditions of the socialist stage. The objective economic conditions for the existence of a socialist commodity economy, in addition to social division of labor, are mainly as follows:

First, the coexistence of two kinds of socialist public ownership. In the underdeveloped stage of socialism there still exist two kinds of public ownership. Agriculture, as the foundation of the national economy, is mainly an economy of collective ownership; whereas, industry, as the leading factor of the national economy, is mainly an economy of ownership by the whole people. Under the condition of the coexistence of two kinds of public ownership, the economic connection between industry and agriculture can only be realized through the exchange of commodities. As Stalin pointed out: the exchange of equal value is the only form of connection with the economy of ownership by the whole people that the peasants can accept. At present, over 90 percent of the food and other economic crops of our country are produced by a collective economy. With the exception of those for self-consumption, all these agricultural products must enter the market. Through the process of exchange of equal value, these agricultural products are converted into light and heavy industrial products needed by the collective economy. Agriculture is an important market of light and heavy industrial products. At present, about two-thirds of our light industrial products are marketed in the villages. As modernized agriculture develops, more and more heavy industrial products such as tractors, automobiles, chemical fertilizers, insecticides, electricity, oil, coal, construction materials and so on have to be marketed to collectively owned agriculture.

Second, since the level of development of the socialist productive forces is still relatively low, the means of production owned by the whole people still cannot be centrally and directly allocated, utilized and managed by the whole society. These means of production still have to be relegated to the enterprises for a long time. Enterprises should be given certain

powers of possession, allocation, utilization and management over them. Therefore, each enterprise constitutes a relatively independent economic unit and has its own material interests. The state of enterprise management must be closely integrated with the material interest of enterprise and its staffs. Enterprises and workers having better performance and greater contributions must receive more material benefits. Those having poor performance and small contributions must receive less material benefits. Such disparity of material benefits, in reality, represented the differences among various enterprises with regard to the possession of the means of production and products. Although the ownership belongs to the whole people in reality the "boundary of distinction" still exists among enterprises. In the exchange of product, they can only follow the path of exchange of equal value instead of uncompensated possession. Therefore, the means of production exchanged among enterprises are still commodities.

The above analysis illustrates that all socialist production and exchange are still commodity production and exchange. All socialist economic activities and connections of reproduction are closely related to commodity and currency. Therefore, a commodity economy is also a basic characteristic of a socialist economy. A commodity economy cannot be divorced from the market because commodity production emerges for the sake of market and exchange. Lenin said: "The market is just the manifestation of the social division of labor in the commodity economy." "Where there is a social division of labor and commodity production, there is the 'market.'" (Lenin, "On the So-called Market Problem," "Collected Works of Lenin," Vol 1, pp 85, 83)

A planned economy and a commodity economy are the two basic characteristics of the socialist economy based on public ownership. Their relationship is not so antagonistic as some comrades may think. Lenin pointed out that planning simply means a constant and conscious maintenance of the proportions required by social reproduction. The existence of a commodity economy does not change or abolish centralized planning, "it only changes the method for realizing the plan." Commodity relations represent different relations of material interests among commodity producers. Therefore, the economic connections among different commodity producers should be realized in the form of an exchange of equal value. Since a socialist economy is a commodity economy, the connections and proportions of all socialist reproductions must also be realized through the conscious utilization of the law of value and the exchange of equal values. Otherwise, it will infringe on the material interest of the commodity producer thus denying the fact that they are different commodity producers. Here, utilizing the law of value to realize the plan consciously is still a conscious action of working according to proportion. Furthermore, consciously utilizing the law of value cannot be divorced from the law of planning and the basic laws of a socialist economy. That is to say, these three laws combine to regulate socialist production and circulation. It cannot be denied that between the law of value and the law of planning there are certain contradictions. However, these contradictions can be resolved.



Therefore, a planned economy and a commodity economy are a unity. Not only should they become a unity, they actually can become so. A socialist economy is a planned economy as well as a commodity economy. This means that in the management of the socialist economy, both the law for the schematic and proportionate development of the national economy and the law of value should be utilized. The plan and market should be properly integrated. Only thus can the socialist economy be properly managed according to the demands of objective economic laws. To accept any one aspect at the expense of the other is superficial. It will bring serious consequences to economic work. To accept a socialist economy as a planned economy while denying it as a commodity economy will result in the one-sided emphasis of planning while disregarding the utilization of the law of value and the market. This will unavoidably lead to the various defects of overconcentration, over-rigid centralization, production divorced from demands, disregard for economic results and a waste of human and material resources. This will slow down the development of the economy. Stalin pointed out: "It is erroneous to underestimate the function and significance of planning work. But it is more erroneous to exaggerate the function of the principle of planning and think that we have already reached the stage of development to plan everything and regulate everything." ("On the Food Front," "Collected Works of Stalin," Vol 11, p 71) On the other hand, if we deny that a socialist economy is a planned economy and only regard it as a commodity economy, this will lead to the abolition of planned management and leave the economy to the spontaneous regulation of the market. In this case, anarchy of social production, dislocation of proportion and economic crisis will be the natural consequences. These consequences are indeed serious. To be sure, the commodity economy of our country at the present stage is still very backward. We lack excess commodities. We still have to try our best to develop commodity production. However, our commodity economy is planned. In the process of developing a commodity economy, we must strengthen the guiding effects of planning.

In short, as a starting point, we must admit that a socialist economy has the two basic characteristics of being a planned economy as well as a commodity economy. Thus we must insist on planned management as well as full utilization of the market. We must combine centralization with flexibility so that centralization will not be too rigid and flexibility will not end up in confusion. Only thus can we promote the sustained, steady and high speed development of our national economy and bring the superiority of the socialist system into full play.

## II

The plan and the market are two important mechanisms emerging one after the other in human society for the regulation of economic development. The market is a category of a commodity economy. It has existed for several thousand years as a mechanism for regulating the economy. Under the condition of a commodity economy based on private ownership, the market regulates the economy spontaneously. It exists as a social force governing



the haphazard activities of man. Although the individual enterprises in a capitalist society have their own planning, a planning mechanism regulating the production of the whole society is nonexistent. When it comes to a socialist society, it is possible for man to plan ahead in the course of social production. Thus, the planning mechanism which man uses for the conscious regulation of social production emerges. However, since a commodity economy still exists in the stage of socialism, the market mechanism will certainly exert its influence in economic life. The market founded on public ownership is no longer an alien force which man cannot control. Instead, it is a tool which can be consciously used by man in the service of a socialist planned economy. Therefore, using the two important mechanisms of the plan and the market in the management of the economy is an important characteristic of socialist economic planning.

For a long time people have regarded the market as a characteristic of capitalism. The market and the plan are regarded as something mutually exclusive and antagonistic. This is indeed a misconception. First, the market is a product of a commodity economy and not of capitalism. The economic condition on which it relies for its existence is a commodity economy. Whereas, in history a commodity economy existed well before capitalism and continues to exist in the socialist economy well after the extinction of capitalism. Therefore, since we cannot identify a commodity economy with capitalism, likewise, we cannot identify the market with capitalism. Second, the nature of the market is determined by the nature of a commodity economy. The capitalist market is founded on a commodity economy of private ownership. It is in the service of the capitalists for the purpose of producing surplus value. The socialist market is founded on a commodity economy of public ownership. It is in the service of socialist enlarged reproduction. Therefore, in essence, a socialist market and a capitalist market are basically different. Furthermore, under the socialist system, the law of schematic and proportionate development of the national economy goes together with the law of value. In both the plan and the market, the effects of the two laws are interpermeable. The plan not only has to reflect the demands of the basic economic laws of socialism and the law for the schematic and proportionate development of the national economy, it also has to reflect the demands of the law of value. Thus, the laws governing the market are not confined to the law of value but also include the various basic economic laws of socialism and the law for the schematic and proportionate development of the national economy. Therefore, the plan and the market are not mutually exclusive. In short, the two are united. Of course, since the demands between the law for the schematic and proportionate development of the national economy and the law of value may not be absolutely identical under certain situations there may be contradictions between the plan and the market. However, under the condition of planned economy, such contradictions can be resolved.

Our task in economic management is to integrate the plan and the market together organically. To achieve this, we must solve the following two

problems correctly: 1.) fully utilize the market in the service of fulfilling centralized plans; 2.) bring the guiding effect of planning over the market into full play.

Primarily, the full utilization of the market means assigning greater power of self-management to state enterprises and collective production units. It will allow them to conduct economic activities as individual commodity producers in the market. This will also allow the market and the law of value to exert their regulating effects in social production and circulation.

How to use the market in the service of planned economy? First, use the market to link up supply, production and marketing to resolve the contradiction between production and demand. This will result in more realistic planning and production will meet social demands more satisfactorily.

The purpose of socialist production is to satisfy the demands of society and the masses. The task of planning is to correctly define the connection between social production and social need. This will insure the production of various products conforming to the various concrete needs of society. In the socialist stage and under the condition of the existence of a commodity economy, the connections between production and needs must be established through the tortuous path of commodity exchanges in the market. Therefore, the market should be given due consideration in the course of planning. In a commodity economy the market is the natural link between production and consumption. It can realistically reflect the changes of social needs and through changes in prices and demands expose the contradiction between production and consumption. If the various production units appear in the market as commodity producers, they can meet the consumers face to face. Then, planning and the needs of the market can be closely linked through the signing of contracts, establishing links among supply, production and marketing, and formulating production management plans according to the needs and possibilities of the market. This will result in the integration of production and needs so that production will meet the needs of society and the masses more satisfactorily. National economic planning will be more realistic if it is based on this kind of grassroots level planning.

However, there is another way of doing things in actual economic life; that is, denying the effects of the market. The market and the enterprise as a commodity producer are then artificially cut off from each other. All the tasks and conditions for supply, production and marketing are assigned and arranged from above in the manner of a "arranged marriage." We cannot understand social needs precisely, they are divorced from the market. In which case, our planning will lose its objective basis and become unscientific. This will naturally lead to haphazard production and management for the sake of fulfilling the plan. Thus as marketing is determined by production, production will be divorced from actual demands. It is evident that in such a large country like ours, we have a large number of departments, hundreds of thousands of production units and thousands of varieties of products. The needs of various quarters differ in thousands

of ways. In our national planning, it is impossible for us to include all the economic activities and relations of production and demands in society. Therefore, merely relying on national planning cannot fully and accurately reflect the needs of society. The more detailed and all-inclusive the plan, the more it is divorced from reality. Lenin soundly criticized an all embracing plan as being mere bureaucratic wishful thinking. In other words, there can be no genuinely realistic and scientific planning without a proper understanding and reliance on the market. In this sense, planning should be based on the market.

Second, use the market to correct the plan in time. This will eliminate disequilibrium in favor of a new equilibrium thus insuring the smooth fulfillment of the plan.

The commodity exchange among various departments and enterprises of the national economy is realized through transactions in the market. As a result, the market plays a pivotal role in commodity exchange. Inevitably, many proportionate relations are reflected in the market and the market in turn influences various aspects of social reproduction. Therefore, it is vital to the fulfillment of national economy planning for us to be good at using the market. In carrying out the plan, the market plays the role of examination and correction. Like an impartial inspector, it will tell people in time which products are cheap and of fine quality, suit the demands of the consumers and are highly marketable; which products are poor in quality, expensive and not up to standard and unmarketable. It will also tell people which products are exceeding social demands resulting in overstocking and a drag in the market and which products can satisfy social demands and are sold out. This provides reliable information for the adjustment of production management plans. Although we cannot let the prices fluctuate freely as in capitalist countries, a certain degree of price fluctuation in the socialist market and the changes of supply and demand can reflect the contradictions between production and demands more sensitively. This will reveal cases of partial disequilibrium. This effect of the market can urge the commodity producers to adopt timely measures to adjust their production management plans. This will eliminate cases of partial disequilibrium and is beneficial to keeping correct proportionate relations in the national economy at all times. Under given conditions, the market will also tell us how to utilize the law of value to adjust the price of products; thus regulating supply and demand, commodity production and circulation. This is beneficial to fulfilling the national plan.

In actual economic life, as a result of enterprises divorced from the market, it is often impossible to discover in time that planning has already diverged from reality. It is also impossible to meet objective needs and adjust the plan immediately. The result is that even when certain products already exceed social needs, as long as the higher authority does not demand a change in the plan, the factories will continue to produce them as planned. In the meantime, commercial departments also continue to purchase such goods accordingly. When overstocking becomes apparent,

much has already been wasted. Similarly, goods that have been sold out for a long time are not replenished for a long period. In order to improve such insensitivity, slowness and "bureaucrat-merchant" thinking of enterprises, we must fully utilize the market.

Third, use the market to promote competition among enterprises. This will spur the enthusiasm of enterprises, motivate them to improve technology and management, pay due regard to economic effects and actively fulfill the plans.

The use of market implies making allowances for competition among enterprises. Competition is a product of a commodity economy. Lenin said: "These kinds of relation among individual producers laboring for the common market is called competition." ("On the So-called Market Question," "Collected Works of Lenin," Vol 1 p 81) Competitions among commodity producers are governed by the law of value. There is the objective tendency for the law of value to demand that the value of commodities be determined by the amount of social labor needed. This causes commodity producers to compete in lowering their individual labor consumption to the level below the amount of social labor needed. Marx pointed out that: "The social division of labor has put individual commodity producers against each other. They accept no authority other than that of competition." (Karl Marx, "Capital," Vol 1 p 394) In the commodity economy based on private ownership, competition promotes the development of the productive forces. At the same time, it inevitably brings tremendous waste to society and splits up commodity producers. Since a socialist economy is also a commodity economy, it is only natural that there should be competition. Competition under the socialist system can be used to serve the planned economy. Through competition in the market, enterprises are directly examined by consumers and users. They are constantly in a position of mutual comparison. Market pressure and material interests combine to give internal motivation to enterprises. This spurs them to make steady improvements in technology and management, dig up production potentials, lower production costs and improve labor productivity. This creates the necessary conditions for enterprises to fulfill the plan in all aspects. It has been proven by practice that this kind of pressure from the market is far more effective than administrative decrees.

Some comrades are afraid of competition. In actual fact, competition is not so frightening. What is more frightening is the lack of competition. The development of things is always in disequilibrium; the contradiction between the advanced and the backward exists at all times. Leaving room for competition can expose contradictions in time; encourages the advanced and spurs the backward, thus promotes the transformation of contradictions. Once the contradiction is resolved, the level of management will be raised and production develops. On the other hand, allowing no room for competition only covers up contradictions and protects the backward. This deprives the enterprises of all motivation and encourages them to be content with their present situation and rely on "eating from the same pot." This is harmful to raising the level of enterprise management and



the development of productive forces. In the course of competition, some enterprises suffered heavy losses or even closed down as a result of poor management, production of expensive products of poor quality and lack of motivation for improvements. This is nothing to be afraid of. The elimination of the backward as a result of competition means progress; whereas yielding to the backward means stagnation and backsliding. Does competition necessarily mean anarchy and disruption of a planned economy? Certainly not. We are advocating competition among socialist enterprises instead of capitalist free competition. This kind of competition obeys the production goals of socialism and the policies and regulations of the state. Therefore, if properly used under the guidance of planning, competition will not do any harm to a planned economy.

Using the market does not mean taking the path of a capitalist market economy. In using the market, we must at the same time strengthen the guiding effects of planning. This is because first, without planning, there can be no centralized socialist economy. Lenin said: "Only large-scale planned construction, which aims at evenly utilizing economic and business values, deserves to be called socialist." (Lenin, "Speech at a congress of chairmen of Guvernia Soviets, 30 July 1918," "Collected Works of Lenin," Vol 28 p 18) Planning always implies centralization. Only centralized planning can insure the schematic and proportionate development of the whole society, dispel anarchy and avoid all the defects of a capitalist market economy. Second, there are still contradictions between the market and planning. While the law of value, to a great degree, regulates the market, various enterprises in the market are dispersed and act independently. If there is no planned regulation, the market will exert itself spontaneously and come into contradiction with the plan. For instance, according to the centralized plan of the state, certain weaker departments in the national economy, quick-yielding products and backward regions require key-point development. However, under the domination of the law of value, the departments and enterprises concerned may be unwilling to develop because such undertakings are uneconomical. Proceeding from purely profit-making motives, certain enterprises prefer to produce profit-making goods rather than goods yielding less profits even at the expense of disrupting national planning. Therefore, for the correct utilization of the market, it is of paramount importance to strengthen the guiding effects of planning. Utilization of the market does not mean the weakening of planning; rather, it imposes a higher demand for such work.

How to exert the influence of planning over the market?

First, national planning should guide enterprises on the orientation of activities in the market. To use the market does not mean encouraging enterprises to act haphazardly in the market. The economic activities of each enterprise should be planned. They should also be in conformity with the demand for schematic and proportionate development of the whole national economy and accord with the realization of the nation's political and economic task. Generally speaking, it is rather limited and superficial



for an enterprise to fix its plans according to its own understanding of the market. This is because the market needs perceived by an enterprise are largely influenced by the partial and immediate conditions of supply and demand and fail to reflect the needs of overall and long term development. Only with an understanding of the overall and long term supply and demand conditions can the enterprise correctly determine its orientation and tasks of production management. In order to put the economic activities of enterprises on the track of national centralized planning, planning departments should put forward proposals on development policies, targets and tasks of various enterprises for the period under planning. Statistical departments should provide various departments and enterprises with timely information about previous execution of planning. We must also avoid the haphazard development of enterprises as a result of going after immediate profits without considering the needs of long term development. To correct this, the successive planning principle of linking long term and short term planning should be applied. The state and various departments and enterprises all need long term planning. Such plans have to be dovetailed from top to bottom. In carrying out current plans, enterprises should look one or a few years ahead to be aware of the past and the future and link them up properly. This will insure that their current activities are in conformity with the direction of long term development and their activities in the market follow the guidance of planning.

Second, national planning should regulate the economic activities among enterprises in the market upon the foundation of overall balance. The national economy is a complex, organic entity. There are close economic connections among its various departments and enterprises. Although various departments and enterprises have their own plans, they operate in a dispersed manner. They also compete with each other. If their activities are not regulated, it is impossible to carry out centralized planning for the whole country. Lenin said: "The plans of the various branches of production must be seriously coordinated and linked up so as to constitute the single economic plan we stand in such great need of." ("The All-Russia Congress of Soviets, December 22-29, 1920," "Collected Works of Lenin," Vol 31 p 464) Therefore, it is only through an overall balance to link up the plans of various departments and enterprises that the unified coordination of social economic activities can be insured. In the process of planning, plans should be drawn up from the national level down to basic level enterprises. Plans of various levels should be coordinated and linked up with supply, production and marketing until economic contracts are finally concluded. In the course of carrying out the plans, various departments and enterprises should carry out balanced coordination with the units concerned when they have to adjust their plans according to changed situations. This will help us avoid a dislocation of supply, production and marketing.

Third, planning should stabilize the market by regulating supply and demand. An active and stable market is the greatest guarantee for sustained economic development and stable life for the people. Under the sway of a fully utilized market, not only consumer goods but also the greater part of

the means of production enter the commodity market. The law of value will regulate supply and demand in the market. In order to maintain "an active and orderly" market and balance supply and demand, the regulating effect of planning upon supply and demand in the market must be strengthened. The disequilibrium between supply and demand is a constant phenomenon in the market. Much harm will be done if supply is allowed to exceed demand or the other way round without being regulated in time. Therefore, the state should provide the necessary planning guidance with regard to the total amount, varieties and prices of means of production and consumer goods circulating in the market. We must strengthen the centralized planned management of important means of production and consumer goods in short supply which are vital to the nation and the livelihood of the people. In carrying out the plans, after an overall analysis of resources and needs, various measures should be adopted to regulate the supply and demand of the market systematically. Examples include adjusting production and import-export plans, reorientating the production and investment of certain enterprises, making inventories of warehouses and tapping potentials, regulating consumption of power, developing noncommercial services, adjusting prices and guiding consumptions, influencing production, practicing rationing and so on. This will regulate the circulation of commodities in the market and balance supply and demand.

In short, under the socialist system, the two mechanisms of planning and the market are complementary and coordinated with each other. Planning determines the orientation of development of the whole economy, guiding and restraining the market to insure the schematic and proportionate development of the national economy. The market is the basis of planning. It provides an objective basis for the determination of the plan and provides the necessary conditions for its realization. It also provides vitality for the development of enterprises and guarantees the smooth fulfillment of national economic planning. It is necessary and possible to integrate planning and the market. Concrete measures for their integration should be investigated so as to build up a scientific economic management system upon this foundation.

### III

If we are to integrate planning and the market and bring into full play these two mechanisms, the present economic management system of our must be reformed. Our present economic management system is basically copied from the Soviet Union in the 1950's. It is also influenced by the management style of small production and the "Supply System." Its primary characteristic is an overconcentration and inclination to use administrative means for economic management. This system worked when our productivity was still low, our economic structure relatively simple and our scale of production still small. However, due to the "over-concentration of power," one-sided emphasis of the effect of centralized national planning and disregard for the law of value and market effects, it is becoming more and more incompatible with the demands of the four modernizations. To build up an economic management system in which planning and the market are integrated, we must create the necessary conditions by carrying out the following reforms step by step:

First, the self-management of enterprises must be expanded and overall economic accounting must be carried out. Socialist enterprises are basic units of planned management as well as basic units of commodity production. Their economic activities are governed by the law for the schematic and proportionate development of the national economy as well as the law of value. The reform of economic management involves the economic interests of the state, the enterprises as well as the individuals. It is impossible not to give priority to the economic interests of enterprises and fully respect and exert their enthusiasm. We must carry out overall economic accounting to link up the material interests of enterprises and laborers with the management results of enterprises to mobilize their enthusiasm as far as possible. Enterprises should be regarded as independent economic accounting units which operate independently. Thus they should undertake legal responsibilities for their own economic activities and bear sole responsibilities for profits and losses. Under the guidance of planning, enterprises should be given all the necessary power to handle production, technology, finance, labor and other economic problems as independent commodity producers. Under the present conditions, enterprises must have the following power of self-management: 1.) enterprises should have the power to determine their own production management plans according to national planning and market demands. Enterprises should be allowed to obtain from the market part of the raw material and equipment needed for production management. Industrial enterprises should be allowed to sell new products invented by themselves and products not purchased by commercial enterprises. Commercial enterprises should also have the right to purchase or refuse to purchase products not needed by the market. With the approval of higher authorities, enterprises can dispose of those means of production lying idle. Enterprises should have the right to refuse any units transferring or possessing their capital, resources and labor force without compensation. 2.) Under the precondition of fulfilling the plan, enterprises should have the right to withdraw enterprise funds from their profits according to a given proportion and use it for staff rewards, collective welfare and development of production. Enterprises should have the right to use their enterprise funds for technological innovation and the inventory of new products. Enterprises permitted by the state to enter the international market should have the right to share part of the foreign exchange. 3.) In conformity with the needs of developing production, improving technology and raising productivity, enterprises should have the right to increase or fire their staffs. Those staffs fired by the enterprises should be transferred to the labor department for the arrangement of new jobs.

Second, the present method of planned management by issuing instructive planned indices from above must be reformed. To carry out centralized planning, we must distinguish between different situations and adopt a variety of methods suitable for different situations. Both the methods of direct and indirect planning should be adopted. Furthermore, both economic means and administrative decrees should be used. Under the present condition, with the exception of important indices which have to be directly controlled by the state, all indices should be changed to that of planned indices of a guiding nature. Plans for enterprises should

be formulated by themselves according to the guidelines and policies of the state and in conformity to the planned guiding indices. We must create conditions for the abolition of the system of issuing overall plans governing the economy of agricultural collective ownership. The state should only control the purchasing indices of principal agricultural products and confine itself to giving opinion on the production indices of agricultural products. This should be merely for the reference of the people's commune in the formulation of their plans. The fulfillment of agricultural plans should be promoted more by economic policies and economic levers.

After the implementation of this system, national centralized planning should concentrate on solving the strategic problems of the national economy. Such problems are the orientation and long term objectives of the national economy, the speed of development and principal proportions of the national economy, the rational distribution of productivity, the introduction, utilization and popularization of major technological inventions, the exploitation and assistance of backward areas, the extent of improvement of the people's living standard, the development of science, culture and education and so on. To this end, the main emphasis of national planning should be placed on intermediate planning and long-range planning. Without overall balance intermediate and long-range plans there can be no planning at all and the yearly plans can never be fulfilled.

Third, a flexible pricing system must be instituted. A flexible pricing system is of paramount importance to the proper use of the law of value and the market. It is a well proven fact that our present pricing system is too rigidly and minutely controlled. This is harmful to promoting production and competition. Allowing a given degree of fluctuation can achieve the goal of producing high quality goods with good prices and spur the enterprises to improve management and develop production.

It can be postulated that under the present condition of our country, with the exception of the prices of important means of production and consumer goods which have to be centrally prescribed by the state, the selling prices of other commodities have to float. The state must prescribe the ceiling or the extent of such floating.

Fourth, a multiform resource management system must be implemented. Operating as independent commodity producers, enterprises should be allowed to obtain from the market the means of production they need. Therefore, the existing system of a centralized allocation of the means of production and a distribution of products by the state has to be reformed. Under the present situation in our country, we can adopt various forms of management according to different degrees of importance of the goods and the conditions of supply and demand. For the few important goods which are in short supply, we can continue the method of centralized allocation and distribution. For ordinary goods, we can gradually carry out wholesale trade and the units in need can sign contracts with the resource companies and furnish supplies according to contracts. For certain goods which are needed in a piecemeal manner, we can carry out retail trade and the units in need can buy them



directly from the retail shops. For the sake of the overall interests of the national economy, the state resource department, if necessary, can coerce production units to supply certain products to designated units which are in need.

Fifth, a labor management system which integrates overall arrangement and freedom of choice must be implemented. The present labor management system of our country is too rigidly centralized and excessively and minutely controlled. This has resulted in the making of "collective arrangements" in the allocation of labor and the phenomenon of "one way in and no way out." In this case, vacancies cannot be regulated, and the result is a serious waste of the labor force. This has obstructed the improvement in labor productivity, making the system incapable of satisfying the demands of modern construction. This must be reformed. In order to have more rational utilization of social labor resources and satisfy the need for the development of the productive forces, we must implement a labor management system which relies mainly on overall arrangements and is complemented by freedom of choice. Labor departments should carry out centralized planning and overall arrangements according to the amount of labor available and the needs of various departments and enterprises. In addition, both unemployed personnel and the employing units should be given the freedom of choice.

The implementation of such a system is beneficial to mobilizing the enthusiasm of enterprises and laborers. This will bring the expertise of various personnel into full play, spur the enterprise to improve its labor organization and improve labor productivity so as to promote the rapid development of the national economy.

Sixth, the present system of financial management must be reformed and the method of "using incomes to compensate expenditures" in the enterprises must be implemented. Our present system of financial management is basically a "supply system" which "centralizes incomes and expenditures." This method fosters the idea of "eating from the same pot." This is harmful to increasing economic results and does not mobilize the enthusiasm of enterprises. It must be reformed and replaced by a new method of "using incomes to compensate expenditures" and undertaking sole responsibility for profits and losses in enterprises. Enterprises should be allowed to share profits so that their material interests can be linked up with their management results. The method of state allocation and uncompensated use of working capital and investment of capital construction for enterprises should be replaced by bank credits and the means of compensated use and interest. In the enterprises, fixed assets originally allocated by the state should be taxed. We should strengthen the banks' supervision over the economic activities of enterprises. This compels enterprises to economize in their use of capital and heightens its effectiveness.



Seven, a more flexible system of foreign trade must be implemented. The rights of departments, localities and enterprises in foreign trade should be suitably expanded. Under the guidance of national planning, more departments, localities and enterprises should be allowed to participate in foreign trade to share in the income from foreign exchange.

Thus it can be seen that in building up an economic management system which integrates planning and the market, many issues are involved. We cannot "treat the symptoms without treating the disease"; merely reform a single aspect. We must undertake full scale reforms by overall consideration of the whole economic management system to achieve the desired result of steady reforms.

CSC: 4006

## ECONOMIC PLANNING

### BRIEFS

**JILIN PRODUCTION CONFERENCE**--The industrial and communications department of the Jilin Provincial CCP Committee, the provincial economic commission, the provincial trade union council and the provincial CYL committee jointly held a telephone conference on 29 August to discuss the question of further developing the movement to increase production and practice economy in the last 4 months of the year. (Dong Xin), director of the industrial and communications department of the provincial CCP committee, spoke at the conference, calling on all industrial and communications enterprises to make every effort to fulfill or overfulfill this year's plans. During the next 4 months, he urged, the gross value of industrial output of the province should be boosted at a progressive rate of 11.7 percent monthly. [Changchun Jilin Provincial Service in Mandarin 2200 GMT 29 Aug 79 SK]

**JILIN STANDARDIZATION BUREAU**--On 23 August the Jilin Provincial Standardization Bureau held a forum in Changchun Municipality on the implementation of the standardization control regulations issued by the State Council. The forum called for strengthening the inspection of product quality in line with the regulations. It was also pointed out at the forum that the regulations should be strictly enforced and that advanced units and individuals with achievements in standardization work should be commended. [Changchun Jilin Provincial Service in Mandarin 1100 GMT 26 Aug 79 SK]

**WUHAN 'QUALITY MONTH' RALLY**--On 30 August the industry and communication front in Wuhan Municipality held a mobilization rally to launch the second "quality month" on the industry and communication front. This year, 120 key products are up to the quality standard throughout the municipality. The first "quality month" was launched in September 1978. At the national comparison of quality of the same trade and profession, 11 products including washing powder were cited in the advanced ranks. A large number of advanced enterprises and individuals have emerged. However, the development of enhancing product quality and increasing the varieties of products on the industry and communication front throughout Wuhan is not even. [Wuhan Hubei Provincial Service in Mandarin 1100 GMT 30 Aug 79 HK]

**JILIN INDUSTRY WORK CONFERENCE**--The Jilin Provincial Party Committee held a work conference on party leadership over industrial departments in Siping Municipality from 20 to 28 August. The conference concentrated on studying how to have more effective leadership over enterprises. Attending the conference were responsible persons of the concerned departments, bureaus and offices of the provincial party and revolutionary committees and secretaries of prefectural, municipal and county party committees in charge of industrial affairs. Song Jiehan, secretary of the provincial party committee, delivered a speech at the conference. He pointed out that as a result of the interference and sabotage of Lin Biao and the "gang of four," continuous political movements had occurred over the past 10 years and class struggle took the place of everything else. Some comrades still hold the wrong idea that class struggle is the central task of the party. If we do not solve this problem, we will be unable to shift the work emphasis of the party. [Changchun Jilin Provincial Service in Mandarin 1100 GMT 29 Aug 79 SK]

**GUANGXI INDUSTRY SYMPOSIUM**--From 21 to 25 August the Guangxi Federation of Trade Unions held a symposium in Liuzhou Municipality of the whole region's trade unions to exchange experiences in increasing production and practicing economy. The symposium demanded that the trade union organizations at all levels further launch the movement to increase production and practice economy and strive to fulfill and overfulfill the state's plans this year. The participants held that the trade union organizations at all levels in the region have done a lot of work in the movement to increase production and practice economy this year and scored a certain achievement. This year, these trade union organizations have also launched socialist labor emulation and paid attention to the daily life of the staff and workers. The symposium held that the trade union cadres must understand the important significance for doing a good job of readjusting the national economy and launching the movement to increase production and practice economy. [Nanning Guangxi Regional Service in Mandarin 1130 GMT 29 Aug 79 HK]

**GUANGDONG QUALITY MONTH**--At the Guangdong conference of the industry and communications front on the work of increasing production and practicing economy, in accordance with the spirit of the instruction of the State Economic Commission, the provincial economic committee decided to launch the second "quality month" activities in September. In the activities, the industry and communications front must continue to fight well the battle of improving product quality. According to the statistics of 18 prefectures and municipalities, by the end of June the quality of 1,089 of the 1,438 main products reached the best level in history. The light industry system in the province trial-produced 295 new products and produced 447 new products in the first half of this year. The provincial economic committee has decided to hold a rally in September to commend units for improving the quality of products and to hold a rally at the end of this year to commend pace-setters and advanced units in improving the quality of products. [Guangzhou Guangdong Provincial Service in Mandarin 2330 GMT 27 Aug 79 HK]

## GENERAL ECONOMIC INFORMATION

### COST OF MEETINGS DRAWS CRITICISM

Tokyo KYODO in English no time given 20 Sep 79

[Text] Peking Sept 20 KYODO--The high cost of holding meetings has come under fire in China as it amounted to 377 million yuan (about yen 54,665 million) last year or 2.9 times the sum spent for the same purpose in 1965.

The figure released by the Finance Ministry was reported in a front-page article in Wednesday's edition of the PEOPLE'S DAILY, the official publication of the Chinese Communist Party.

The daily said a letter from its reader criticized the government's commercial departments for holding "wasteful meetings."

The letter said that national meetings should be held in convenient places.

The PEOPLE'S DAILY said the cost of meetings sponsored by various government agencies in the first half of this year exceeded that of the same period last year.

Of late, the number of meetings has been increasing and their scope has been expanding.

Conferences attended by several thousand to more than 10,000 people are not rare.

A lumber conference held recently at Dalian under the auspices of the State Bureau of Supplies drew 1,200 delegates and 3,000 guests.

In some provinces, state funds were used to hold meetings and cash and prizes were given to delegates. At other conferences, participants spent money for pleasure trips, food and drinks.

The daily said each government section concerned should seriously take note of the situation and cut the cost of holding meetings.

CSO: 4020

## GENERAL ECONOMIC INFORMATION

### BRIEFS

**GUANGDONG MATERIAL SUPPLY CONFERENCE**--At the recently held conference on increasing production and practicing economy on the industry and communication front throughout the province, representatives from the material system pointed out that the material supply departments must change their ideology of not paying enough serious attention to the supply of material to the light and textile industry, particularly the No 2 light industry system. The materials include fuel, motive power and raw materials. They pledged to help the light and textile industry to promote their production. To insure the supply of materials to the light and textile industry, the provincial material supply departments must investigate and study the situation of supplies of materials to the light and textile industry. These departments have already allocated 6,000 tons of rolled steel, 500 tons of cement, glass, plastic and rubber to the light and textile departments. [Guangzhou Guangdong Provincial Service in Mandarin 2330 GMT 29 Aug 79 HK]

CSO: 4006



## FINANCE AND BANKING

### IMPORTANCE OF BANKING, FINANCE, STRESSED

Guangzhou XUESHU YANJIU [ACADEMIC RESEARCH] in Chinese No 3, 20 May 79  
pp 23-31

[Article by Wang Weiming [3769 0251 3046] and Tan Zicheng [6223 2737 2052]:  
"Correctly Handle Several Relationships, Give Full Play to Bank Functions"]

[Text] In his report at the Fifth NPC, Comrade Hua Guofeng said: "We must fully utilize finance, banking and credit in promoting and supervising economic undertakings so as to spur all enterprises to improve management, pay due attention to economic results and accumulate more capital for the state." It is a glorious task for all bank workers to implement this important directive in order to give full play to the functions of the people's banks and to make new contributions in accelerating the four modernizations. In his article "Observe Economic Laws, Speed Up and Four Modernizations," Comrade Hu Qiaomu also proposed that "Great efforts must be made to reactivate and strengthen the functions of banking if we are to quickly improve economic management and do away with the chaos in many industrial and commercial enterprises and in units of capital construction." How to reactivate and strengthen the functions of banking? Speaking of the bank itself, we should pay particular attention to the correct handling of the following several relationships:

1--Correctly Handle the Relationship Between the Supply of Commodity and the Purchasing Power of Money

The laws of money circulation tell us that the money in circulation should be commensurate with the commodity in circulation. Commodity circulation determines money circulation, while money circulation is subordinate to commodity circulation. Normal money circulation must have a suitable commodity basis, but under certain conditions, it can also play a regulatory role on commodity circulation. In circulation, commodity and money form a set of opposites in unity. The equilibrium in commodity circulation determines the equilibrium in money circulation, but the equilibrium of money circulation can also promote the equilibrium of commodity circulation. Therefore, to correctly handle the relationship between commodity and money circulation, there should be a balanced supply and demand of commodity so

that the currency put into the market will have a material backing. Yet the banks by no means remain idle in passively trying to maintain the balance. On the contrary, when the banks strengthen their control of cash, wage funds, monetary circulation, credit and clearing of transactions, and thereby insure normal monetary circulation, they can help promote commodity circulation, insure the stability of market prices, and stimulate the production and turnover of goods. This is one of the important tasks for socialist banking. Under our socialist system, the Renminbi in circulation stands for purchases in three different forms: First, urban purchases; second, rural purchases; and third, institutional purchases. These forms of purchases necessarily affect several balances: First, the changes resulting from the increase of wage funds and the increase of the supply of consumer goods, or the balance between urban purchases and the supply of consumer goods; second, the balance between rural purchases and the supply of commodity, or the proportion between the procurement of agricultural and sideline products and the distribution of cash among commune members, and between the money put in circulation for supporting agriculture by the finance departments, banks and credit cooperatives on the one hand and the supply of means of production and consumer goods by the state on the other. Payments for large transactions by institutional purchases including those of government offices, enterprises and establishments, are not in the form of cash, but small transactions are paid with the money in circulation. Since the state's supply of commodity is limited, institutional purchases will correspondingly reduce the amount of consumer goods for the people. This will result in increased tension in market supply and will inevitably affect the proportionate relationship between the supply of commodity for the people and their purchasing power, with side effects on the withdrawal of money from circulation and the normal monetary circulation in the market.

The problems concerning the several relationships mentioned above are actually the problems of balance between the purchasing power of money and the supply of retail goods. To maintain such a balance, the bank is required to actively support the production and circulation of commodity. At the same time, it must have a firm grasp of the links of distribution, control of the increase of purchasing power in a planned way as permitted by the supply of commodity, and thus maintain a balance between the supply of commodity and the purchasing power of money. In actual work, the following problems should be solved:

First, the increase of wage funds should keep pace with the increase of consumer goods. The payment of wages is the main channel for the state to put money into circulation in urban areas. Along with the development of socialist construction, the increase of cadres, staff members and workers, and the continual increase of their wages, there will also be a constant increase of the total wage fund. At present, of the total amount of money put into circulation by the state, around 60 percent is being taken up by wages. To avoid a dislocation between the increase of wages and the supply of commodities, apart from the need for stable and reliable state planning and arrangements, the people's bank should still maintain close contacts

with various departments under the unified local leadership, strengthen its control of the wage fund, strictly restrict the increase of staff members and workers and the total amount of wages, in order that the increase of purchasing power will correspond with the increase of the supply of consumer goods.

Furthermore, state disposition of funds for supporting agriculture should be consistent with the materials available for supporting agriculture. Funds are the reflection of materials in terms of money. State funds in aid of agriculture are actually aids in the form of materials. These funds, either in the form of financial allocations or bank loans, should be included in the unified state plan in order that there will be an overall balance and a close relationship between funds and materials, and the increase of every yuan in the funds will be accompanied by a corresponding increase in materials. Besides providing a firm foundation for the support of agriculture, this will also prevent an excessive amount of money in circulation which may affect the stability of market prices. Although state aid of rural collective organizations with either funds or credit are handled through state banks which take care of transfers and settlements, any disparity between funds and materials will bring about a dislocation. In the first place, there may be funds but not enough materials, and aid to agriculture will be ineffective. Moreover, if funds in aid of agriculture are relatively excessive, they may be diverted to other uses or simply wasted. This will also increase the money in circulation and upset the balance between purchasing power and the supply of commodity. Therefore, one of the "three basic requirements" for loans by the People's Bank stipulates that there must be material guarantee, and the materials should be useful and welcomed by the masses.

Again, the amount of money put into circulation for the procurement of agricultural and sideline products and for distribution among commune members should correspond with the amount of industrial goods supplied to the countryside. The cash obtained by the commune members from distribution after selling their agricultural and sideline products is mainly spent on buying consumer goods from the state. If too little industrial goods are supplied by the state to the countryside, there will be an imbalance between the purchasing power in the countryside and the supply of commodity and an abnormal money circulation in the rural market which may dampen the commune members' enthusiasm in selling their agricultural and sideline products. This will further impair the relationship between cities and the countryside as well as the industry-agriculture alliance.

Finally, if the institutional purchases by government offices, schools, army units, enterprises and establishments are unduly increased, the state will be unable to withdraw more money from circulation. Therefore, institutional purchases should be strictly controlled and carefully planned.

The effective solution of the above four problems is a concrete measure for guaranteeing a balance between the purchasing power and the supply of consumer goods, as well as an important aspect of monetary control by banks. According to our historical experiences since the founding of the People's Republic, there has been a certain ratio between the purchasing power of money and the supply of commodities. In the case of Guangdong, the ratio of 1:8-9 was fairly appropriate. According to this ratio, there should be 8 or 9 yuan's worth of commodity available for every yuan in circulation. Should there be less than 8 yuan's worth of commodity in the market for every yuan, the supply situation in the market will be tense and money cannot circulate freely. Around 1961, for example, when our country experienced temporary economic difficulties, the ratio between the purchasing power of money and the supply of commodity was about 1:4, reflecting a scarcity of goods and excessive money in circulation. Conversely, should the amount of commodity supply be more than 8 yuan's worth for every yuan, there would be over-stocking of goods. This phenomenon appeared once in 1955 when the ratio was 1:12. Therefore, it is very important to maintain a normal ratio between the purchasing power of money and the supply of retail commodity.

In the past several years, the disruptions by the "gang of four" created many problems for our national economy reflecting the disparity between the purchasing power of money and the supply of commodity. When money was in excess of the supply of commodity, the monetary circulation became abnormal, and this has been an urgent problem for people in the financial and economic circles. Since 1977, great success has been achieved in finance and banking. Yet, on the whole, the stocking and supply of commodity are not quite adequate and there is certain discrepancy between the availability of commodity and the purchasing power of money, causing strain on the supply of certain items. Therefore, the banks should continue to cooperate with the departments concerned in improving planning and achieving an overall balance. Meticulous consideration should be given to the source and the use of funds, to credit planning and financial budgeting, and to financial allocations, credits and materials in an endeavor to achieve an overall balance and to normalize the ratio between the supply of commodity and the purchasing power of money.

## 2--Correctly Handle the Relationship Between Financial Allocations and Bank Loans

The circulating funds of socialist enterprises are separately supplied by the financial departments and the banks as part of their responsibility. For the control of circulating funds, the state has stipulated that financial allocations and bank loans should be "separately controlled and separately used." In other words, under the state's unified planning, the funds required by an enterprise are divided into financial allocations and bank loans according to the way they are used. Funds from financial allocations are appropriated from the finance departments, while credit funds are supplied by banks. These two categories are strictly separated and there must not be any confusion. This is exactly the meaning of the saying that



"a bridge comes under the category of bridges and a road comes under the category of roads." The principle behind this separation is that payments, which need not be returned, come from the state financial allocations while those requiring reimbursement come from bank loans. The former is used to finance capital construction projects, to pay administrative expenses and to serve as the enterprise's minimum circulating funds. The latter is a kind of circulating fund for projects of a seasonal or temporary nature. If these two different funds, coming from different sources, are not strictly differentiated and the bank is required to issue money on the strength of a signed slip showing the "superior's" authority, this is a violation of financial and economic discipline which would certainly upset state plans, undermine market price stability, impair normal monetary circulation and undermine national economy. Now, let us further clarify this situation from three different standpoints.

First, from the standpoint of the source of funds. Since the two funds come from different sources, their different natures determine the way they are to be used.

Funds from financial allocations come from profit tax and the profits of enterprises. Bank credit funds mainly come from the deposits by government offices, enterprises and other units as well as the saving deposits of individuals in cities and the countryside. Because of their different sources and different natures, the way they are to be used should be strictly differentiated. Funds from financial allocations come from profit taxes and can be used by the state on national defense, cultural, educational and health facilities, public welfare, administrative expenses and capital construction investments. These funds need not be returned, and the banks always set aside an amount of money for this purpose. Therefore, funds from bank loans cannot be put on long-term use, and must be returned. It should be used flexibly on a reimbursable basis on short cycles as an expedient for temporary needs. If these funds are diverted to such items as should be covered by allocated funds or to capital construction projects, they are most likely to be tied up for a long time or may not even be returned, in which case, they become "non-reimbursable funds." This will affect the normal turnover of credit funds and even the normal circulation of money. Therefore, allocated and credit funds must be controlled and used separately.

Secondly, from the standpoint of the balance of funds and materials, "separate control and separate use" help to strengthen normal monetary circulation.

The concentration or distribution of allocated or credit funds in effect means the concentration or distribution of materials of equivalent value. The state's distribution of funds through the channels of allocation of loan is carried out after an overall consideration of various factors, including the supply of materials, in order that a unified plan to achieve an overall balance can be worked out. If the principle of "separate control and separate use" is not upheld, so that what should be paid out of allocated funds is actually paid out of the credit funds, or, worse still, bank credit



funds are misappropriated for the payment of state financed projects, state planning will be upset, causing undue strain on the material resources, along with fund hoarding, waste, and disruption of the circulation of money. Therefore, judging from the relationship between funds and materials, it is also necessary to uphold the principle of "separate control and separate use."

Thirdly, from the standpoint of rational use of funds by enterprises. According to the special characteristics of the turnover of an enterprise's circulating capital and the different sources and characteristics of different funds, the state adopts different methods to meet different needs. In this way, the state's limited funds can be put to the most rational and economic use.

An enterprise's circulating funds are used to meet two different needs. The first need is seasonal or temporary in nature, to be met with funds on a reimbursable basis, such as bank loans. The second need is for a constant minimum fund to be used for regular production or commodity turnovers. Since it requires funds on a long-term and non-reimbursable basis, it calls for state financial allocations. If funds for both long-term and temporary uses are appropriated out of financial allocations, then a part of the funds cannot go into circulation, inevitably resulting in waste from hoarded funds. State funds earmarked capital construction will be relatively reduced, and expanded reproduction and the speed of socialist construction will be hampered. If the second need is to be met by bank loans, a portion of these funds will be tied up for a long time, thus slowing down the turnover of credit funds. This is an irrational way of spending. Therefore, the solution is through "separate supply and separate use" according to their different sources.

Under the pernicious influence of the "gang of four," many problems have cropped up in the past several years. Funds from bank loans were used to pay profit taxes and other expenses normally covered by financial allocations, and sometimes even capital construction projects not included in the state plan were started with bank loans. Such and similar violations of financial and economic discipline were quite common and constituted a grave problem for the use of funds by enterprises. According to statistics, in the first half of 1978, for every 100 yuan of output value of state-enterprises, 327 yuan of circulating funds were involved. Misappropriation of bank loans has been quite common since 1977. Such confusions, if not quickly set right, will greatly endanger the state. The misappropriation of bank loans is in fact only a question of central or local authority as well as a question of overall or partial interests. If financial allocations and bank loans are not "separately controlled and separately used" in practice, but, instead, paid out of the presentation of a signed slip from the "superiors," who can at will use bank loans instead of state allocations, it will mean that the "superiors" in various localities and departments will have the authority to issue legal tenders openly or in disguise to increase the outlay on state financed items. This is a criminal act of disrupting monetary control,

undermining the centralized authority of the central government to issue legal tenders, and sabotaging the overall interests. The same misappropriation of credit funds by the departments concerned is not only a violation of financial and economic discipline but also an illegal act which may lead to graft and embezzlement and speculation and profiteering. It may even corrode the cadres and provide the soil for the breeding of capitalism.

After all, the "separate control and separate use" of financial allocations and bank loans is a matter of principle for financial and economic work with a bearing on the consolidation of money circulation; on the balance of finance, credit and materials; on the planned, proportionate and high-speed development of national economy; and on the whole economic life of our country. Banks must firmly uphold this principle, draw a clear line of demarcation, keep the two types of funds separate, and firmly oppose any misappropriation of bank loans, openly or in disguise, for capital construction projects or other expenses normally covered by financial allocations. In dealing with violations of financial and economic discipline, they should take such actions as increase of interests, withdrawal of loans, refusal to grant further credit, refusal to clear transactions, or other methods of economic sanction according to specific circumstances in order to stop violations of law and discipline.

### 3--Correctly Handle the Relationship Between Organizing and Using Funds

Under our socialist system, the People's Bank is the nerve center of fund handling for the entire country and performs the important job of organizing and using funds. Banks organize and use money, and the inflow and outflow of money constitute the motion of bank funds. The organizing and the using of funds are under independent categories, but they are interdependent and combine to form an entity in the motion of funds. Thus it is correct to say that the bank's entire occupation revolves around the organizing and the using of funds. In giving full play to its own functions and in accomplishing the general task in the new period, therefore, the banks should correctly recognize the relationship between the organizing and the using of funds and handle this relationship properly.

The organization of funds is the foundation of the use of funds. The bank's funds come from the following three sources: First, the state allocations for credit funds and the bank's retained profits; second, the deposits from various economic organizations and various units and the saving deposits from people in urban and rural areas; and third, the currency issued according to state plans. These funds converge to the bank through different channels and then the motion of funds begins through the bank's functions. If funds are better organized, more funds will be available and greater use can be made of them. Conversely, if the funds are not well organized, the available funds will be less with consequent reduction of their utility. Since banks have the responsibility of promoting production and expanding the scope of commodity circulation, efficiency in the organization of funds is not only an economic, but also a political problem.

concerning the speed of national construction. Therefore, the organization of funds from any source should be carried out under the guidance of the party's financial policy and in accordance with the different characteristics of their sources, with a view to raising its efficiency and expanding the sources of funds to the maximum extent.

The bank's capital fund and currency issue are determined by the requirements of the national economy. The deposits by various units are governed by legal stipulations under the state's system of currency control and transaction settlement. The amount of savings deposits absorbed from the urban and rural areas largely reflects the quality of work in the bank's savings department. In the 29 years after the founding of the People's Republic, savings have provided large sums of money for construction in the country. By the end of 1975, the total savings deposits amounted to 85 percent of the total government loan for agricultural development. In our province, the total savings deposits in 1977 was basically equivalent to the total credit extended to industry, or 220 percent of our credit to agriculture throughout the province. The banks' absorption of savings has greatly helped them to meet increased expenditure without increasing state allocations for bank credits, and thus reduced the state's currency issue. Along with the improvement of the political and economic situation in the country and the vigorous development of industrial production, the policy "to each according to his work" is being correctly implemented and the people's income will certainly continue to increase every year. With the increase of income, people will have more temporarily idle cash, or surplus cash on hand. Therefore, it is an important duty of the bank to organize the work of savings deposits well in order to increase funds from this source. In Guangdong, especially in the rural and overseas residence areas, the amount of cash in the market seemed to be a little excessive in recent years. According to investigations, the commune members' cash on hand in 1975 showed an increase of 160 percent over that of 1965, although the cash on hand of the town residents increased by only 42 percent in the same period. Therefore, we must attach great importance to the work of savings deposits in various rural areas.

The funds organized by banks are mainly used as loans to production and circulation departments in the forms of industrial loans, commercial loans and agricultural loans. Of the total circulating funds required for the business activities of enterprises owned by the whole people, about 30 percent is used by the industrial departments and 70 percent by the commercial departments in the form of bank loans. Agricultural loans have all along occupied a very important place in the use of bank funds. Comrade Li Xiannan has proposed the plan that in 1985, 80 to 90 billion yuan will be allocated in installments to support mechanized and modernized agriculture, and that a portion of these funds will be provided through bank loans. From this, we can see the important role of the bank in using funds for the high speed development of national economy.

Funds are organized to be used, but the use of funds plays an important regulatory role on the organization of funds. First, when the bank has done a good job in arranging loans according to state policies, in using the funds to the best advantage and in promoting agricultural production and commodity circulation to the maximum extent, it will be able to greatly expand the sources of funds and thus guarantee the effective organization of funds. Secondly, the use of bank funds includes the extension of loans as well as their recovery. Extension must be combined with recovery, and it cannot only extend loans without recovering them. When bank loans are well arranged, recovery will be easy. In this way, the bank can substantially maintain its centralized control of the funds. If the plans for loan recovery are not well worked out, its centralized control will be weakened. Thirdly, the way funds are used is generally determined by the way they are organized. However, in a certain sense, it also follows party decisions on the forms of credit utilization and fund distribution when the central tasks during a historical period are set. For example, in the high-speed realization of the four modernizations, the state may require foreign exchange for importing advanced technology. Under such circumstances and because of the need for the use of funds, the bank should be guided by the state's financial policy in absorbing foreign exchange, and when a decision has to be made on the use of foreign exchange, the relative urgency of the need should be considered along with the ability to meet the need. The above several points show that the use of funds plays a great regulatory role on the organization of funds, and that both the organization and the use of funds are very closely related.

How to streamline the relationship between the organization and the use of funds? From the standpoint of the bank itself, now should be the time to readjust the banking operation, to strengthen the financial management, to implement the series of principles and policies of the central authority concerning financial work, and to effectively handle the bank's various internal and external relations according to objective economic laws.

First, we should strictly observe the bank's basic rules, combine the "three major centers" of the bank into an organic whole, and carefully streamline the relationship among various departments inside the bank. The People's Bank is the nation's center of credit, center of cash payment and the clearing center. The functions of these "three major centers" are closely related and combine to serve the bank in the efficient organization and use of funds, subject to a strict observance of the basic rules. The bank must have a centralized control of the credit funds before it can control the cash funds on a nationwide basis and carry out the transfer of accounts and clearing of transactions in an all-round way. It must also have a tight control of the cash funds and a centralized system for transferring accounts and clearing transactions before there can be a large concentration of funds in the bank and before the bank can better play its role as the credit center. Therefore, when the different departments of a bank have harmoniously completed the tasks of the "three major centers," the relationship between the organization and the use of funds can be easily handled.



Secondly, it is necessary to firmly adhere to the policy of centralized management of funds and to establish good relations with various economic units. The relations between a bank and the economic units are strongly reflected in the way to resolve contradictions between the need for funds and the ability to meet it. With the large-scale economic developments, the need for bank loans will continue to increase every year. However, when production reaches a certain level, the bank's fund resources will reach the limit. Therefore, there is always the contradiction between the demand and the supply of funds. From past experiences, we can see that the increase of sources of funds for banks cannot always keep pace with the increase of spending, particularly in recent years when financial management has been very seriously disrupted by the "gang of four" and the contradiction between the supply and demand of funds became very acute. Therefore, special attention should be paid to these aspects of work at present:

(1) Firmly uphold the three principles of extending loans, namely, the principle of granting and using loans according to plans, the principle of material guarantee, and the principle of repayment on schedule. The bank must grant loans and the enterprises must use it in a planned way so that the loans can be used to bring about the desired material results. Only thus can the practice of misappropriation and waste be prevented and the use of loans for production turnover and commodity circulation be guaranteed. This will also insure the enterprise's ability to repay the loan on schedule.

(2) Firmly grasp the work of recovering the circulation funds and loans diverted to improper use. At present, the total funds used by enterprises are quite large and the amount of goods in stock is irrational because of serious over-stocking, stagnation and hoarding. The banks should, in cooperation with the departments concerned and under the guidance of party principles and policies, study the trend of production, supply, marketing and the people's purchasing power, and adopt suitable measures to solve the problems of changes in supply and demand. At the same time, the bank should help the enterprises clear up warehouses, tap potentials, promote material circulation, increase sales, explore material and financial resources and use funds more advantageously. If the circulating funds for every 100 yuan's output value by state industry in 1978 could be lowered by 6 percent below that of 1977, the country would have saved 6 billion yuan.

(3) Coordinate with the departments concerned in studying and examining the enterprises' own circulation funds and to improve the enterprises' system of financial control. The enterprises' own circulation funds should be allocated in a practical way and their system of financial control should be improved before there can be a good foundation for the implementation of the three principles for bank loans and the principle of separate control of different funds.

Thirdly, it is necessary to firmly uphold the principle of voluntary deposits, free withdrawals, paying interest for deposits and observing secrecy for the depositors in order to improve the banks' relations with the urban and rural population. In accordance with the party's principles and policies, the bank should, for the purpose of propaganda, adopt some methods pleasing to the people in explaining the significance of saving. In rendering service,



they should provide many different forms of saving so that it will be convenient for the people to deposit and to withdraw. Besides, there should be meticulous attention to customers, accuracy in accounting, and enthusiasm in developing this undertaking. To encourage mass saving, it is necessary to publicize the fact that paying interest is in line with the party's economic policy. The rates of interest should be consistent with the current political and economic situation.

In addition to the above, it is necessary to uphold the principle of separate control of different funds, and establish good relations with the finance departments so that they can cooperate with the banks to make even greater contributions through different channels and in harmony in the distribution of funds.

#### 4--Correctly Handle the Relationship Between Bank Service and Bank Supervision

Service and supervision are the two main functions of our People's Bank. According to the party line, principles and policies, the national banks implement the rules of financial control approved by the state. Besides performing various duties of their own, they also support and help the enterprises in various ways, such as promoting their activities, boosting their production and developing their commodity circulation. This is what we always call promotion and service. In the course of rendering service, banks can, through their various business activities, restrict, expose or attack any act of violation of the line, policies rules and regulations or economic contracts. This is what we usually call control and supervision.

Service and supervision are closely related and combine to form an indivisible entity. Their relationship and interdependence have these features: First, regardless of service or supervision, their activities invariably revolve around one basic objective, namely, to support and encourage the enterprises in controlling and using their funds well as demanded by the state plans and policies, in developing production and in expanding commercial activities with the most economical and effective methods in order that these enterprises can help develop the national economy at high speed and consolidate the dictatorship of the proletariat. Secondly, national banks are a government department whereby the state can control economy through credits, clearing transactions and other economic levers. Therefore, instead of mainly relying on administrative methods, banks should play their roles of service and supervision through their own business activities. Thus service and supervision of the banks can be united only on the foundation of efficient duty performance, the bank will all the time serve and supervise all forms of business activities of any department within the system of national economy as long as these activities are concerned with bank money. Fourthly, the bank's supervision is based on its service. The banks' duty in improving the quality of work among various departments of the national economy system gives rise to the need for the banks' supervision. Where there is service, there must be supervision, and it is through supervision that banks can perform their duty well.

From the above, we can see that service and supervision, as the two aspects of bank duty, are closely related and interdependent. Service calls for supervision, and supervision is for the purpose of better service to production and commodity circulation.

The role of national banks in promoting national economy and in supervision is beyond question. Banks are the clearing centers, the credit centers and the cash payment centers of the country and have their branches in various urban and rural areas, with hundreds of thousands of people engaged in such economic activities as calculating, recording and observing. Furthermore, all economic departments and units have, without exception, close business connection with the bank in money matters. Therefore, any matter or problem in connection with the national economy, such as the relationship between production and circulation, funds and materials, currency and commodity circulations, supply and demand of commodities in the market, the labor index and the total wage funds can be comprehensively reflected by the business activities of banks or by the reports of the departments dealing with banks. In this sense, banks are the "thermometer" of national economic activities, and this very sensitive "thermometer" can promptly, fairly comprehensively and accurately reflect the problems and trends of the national economy. Although bank reflections are confined to the forms of value instead of the conditions of materialized labor or living labor, it can nevertheless provide some clues for investigation and study with a view to clarifying the issues and solving problems. Thus we can see that along with the development of industry and agriculture, banks will play an increasingly important role in promotion and supervision.

If the roles of promotion and supervision by national banks are given full play, they should be more flexible and effective than administrative methods in the control of national economy. This is because: (1) Banks have extensive and close relations with various enterprises, and since they are concerned with the effective use of the loans extended, they must have to know and keep abreast of the enterprises' business conditions. At the same time, along with the circulation of funds in production, purchasing and marketing, clearing transactions and other factors, banks are in a better position to know the entire process of the enterprises' business operation and to grasp the trend of its business. On the strength of this knowledge, the banks can influence the enterprises' business activities through loans, settlements, cash control and other financial transactions, and efficiently adjust various economic relations until the objective of economy management is attained. (2) The bank's plans for loans and cash payment are included in the plans of national economy aiming at an overall balance after a unified arrangement. The conditions reflected by the implementation of the bank's plans for loans and cash payments, in combination with various changes will reveal important problems in national economic activities and enable us to size up the overall situation. For example, in June 1978, after reviewing the plans for loan extension and withdrawal of currency from circulation, the Second Business Section of the Guangzhou Municipal Branch made a full report, along with a recommendation for improvement, to the Municipal Planning

Committee. The report pointed out the poor sales record for Guangzhou wrist watches, their stockpiling, the repeated requests for loans and the tying up of funds because of the failure to return them on schedule. (3) Through the motion of funds, the banks make careful assessments in terms of value and work out statistics of production and circulation in the national economy. These assessments and statistics will be useful for cost accounting by the enterprises besides showing whether the business management is efficient or inefficient.

Banks are playing an ever-increasing role of promotion and supervision in the national economy. Speaking at the National Finance and Trade Conference on Learning from Taching and Tachai in July 1978, Comrade Hua Guofeng emphasized that the financial and banking departments should "resolutely stop all acts that violate financial and economic discipline and cause a waste of state funds, whatever the pretext and, if necessary, there should be economic sanctions or even legal steps." To meet with this requirement, the banks and enterprises must correctly carry out the principles of economic interests and strictly enforce the system of economic responsibility. According to the national banking system, banks can use economic sanctions as a means of exercising their supervisory function whenever necessary. This means is necessary and effective, but it is still not enough. In order to further strengthen their supervisory function, enterprises are required to be economically responsible to the banks. If loans are not repaid on schedule or are diverted to capital construction projects, the banks, besides withdrawing the loans, have the right to receive compensation for any loss incurred. On the other hand, banks have also economic responsibility to the enterprises. If the banks do not perform their duties properly and thus bring losses to the enterprises, the banks should pay for the enterprises' damages too. At the same time, enterprises involved in transactions through the media of the banks are also economically responsible to one another, and if settlement of accounts is delayed without cause, or if any party refuses to settle its account, this party should be held responsible for any loss. Enforcement of the system of economic responsibility will promote economic interests and activism in economic management in various aspects, and continue to raise the efficiency of economic management.

The above-mentioned four relationships of banking concern complex problems in many fields. The state is now vigorously reforming the system of economic management, and the task entrusted to banks will be increasingly arduous. We must be courageous in practice and exploration, and be good at learning. Then we can certainly help the banks to create a new system of economic management to greatly speed up the four modernizations to make their contributions in building a strong socialist China.

## FINANCE AND BANKING

### BRIEFS

**JILIN FINANCIAL WORK CONFERENCE**--The Jilin provincial financial work conference was recently held in Changchun. Zhang Shiying, secretary of the Jilin Provincial CCP Committee, spoke at the conference. The conference called on the provincial party organizations at all levels to grasp production, to switch deficit to profits and to advance the provincial financial work. [Changchun Jilin Provincial Service in Mandarin 2200 GMT 5 Sep 79 SK]

**HAINAN RIBAO' FINANCE, TRADE**--A 28 August HAINAN RIBAO commentator's article calls on the cadres, staff and workers on the finance and trade front in Hainan to strive to do a good job of finance and trade work, emancipate themselves from the shackles of the ultraleftist line of Lin Biao and the "gang of four," persist in the principle of practice as the sole criterion for testing truth, continuously reform the economic system and enable the superstructure to conform with the economic foundation. To enliven finance and trade, it is necessary to give the essential rights of self-determination to the enterprises. At present, the enterprises do not have any rights of self-determination. This prevents the enterprises from doing a good job of management in accordance with the economic characteristics and economic laws. Therefore, it is necessary to strengthen the responsibility of the enterprises and enhance economic efficiency. [Haikou Hainan Island Service in Mandarin 0330 GMT 28 Aug 79 HK]

CSO: 4006

## MINERAL RESOURCES

### 'AFP' REPORTS ON PRC GEOLOGY MINISTER'S INTERVIEW

Hong Kong AFP in English 0150 GMT 17 Sep 79 OW

[Text] Hong Kong, 17 Sep (AFP)--China is one of the few countries in the world blessed with a comprehensive range of minerals, the newly appointed Chinese Minister of Geology, Sun Daguang, said in an interview published today.

Over three decades of geological work by Chinese scientists and prospectors have uncovered in China the more than 140 kinds of useful minerals known to the world, said Minister Sun in his interview with the China News Agency. China leads the world in the deposits of at least eight types of minerals, namely tungsten, tin, molybdenum, antimony, bismuth, zinc, titanium, and rare earth minerals, he said. So far, China has detected and ascertained the deposits of more than 130 of the 140 kinds of useful minerals and the sites where deposits have been found and determined they number more than 17,000, Mr Sun said. China is also among the foremost of the world's countries in the deposits of iron, copper, coal, phosphorus, aluminum and some other minerals, he said.

At present, China has a geological column of nearly 400,000 men who can handle multi-types of scientific and geological work in various regions across the country, he said. Recent prospecting has unearthed large iron deposits in Shanxi, Hebei, Anhui, Yunnan, and Sichuan, deposits of copper in Jiangxi and Xizang, and several important coal and petroleum fields, he added.

CSO: 4020



## LIGHT INDUSTRY

### BRIEFS

CONSULTATION WITH JAPAN--Tokyo Sep 18 KYODO--Japan and China will hold government-level consultations in Tokyo Thursday and Friday on trade in raw silk and silken goods in fiscal 1979, the Foreign Ministry announced Tuesday. At the consultations, Japan will be represented by a delegation led by Koji Watanabe, deputy director general of the Asian Affairs Bureau of the Foreign Ministry. China will be represented by Wu Shutung, commercial counselor of the Chinese Embassy in Tokyo and other officials. [Text] [Tokyo KYODO in English no time given 20 Sep 79]

GUANGDONG FINANCE DEPARTMENTS--The Guangdong finance departments recently adopted several measures for promoting the development of the light and textile industry. The measures include providing loans, allotting funds from the reserves of the province to help with the production of some light and textile industry products that are urgently needed in the markets, increasing the circulating funds for the key light and textile industry enterprises and giving priority to allot loans for the production of light and textile industry products for export. [Guangzhou Guangdong Provincial Service in Mandarin 2330 GMT 29 Aug 79 HK]

CSO: 4006

## HONG KONG PROFESSIONALS ORGANIZE TO AID MODERNIZATION

Hong Kong, SOUTH CHINA MORNING POST BUSINESS NEWS Supplement in English  
25 Sep 79 p 16

[Article by Julie Auyeung]

[Text]

An association of Hongkong professionals has been formed to help China's modernisation programme, said one of the organisers, Miss Liu Yiu-chu.

The Association of Experts for Modernisation, initiated by local Chinese professionals, has just received approval for the name from Hongkong's Registry of Companies.

Miss Liu, legal adviser to several Chinese corporations, said: "The association is a non-profit making body limited by guarantees without share capital. Its objective is to serve modernisation in China and in other countries."

Members of the association, who are "experts" in different professional fields such as law, accountancy and engineering, will form sub-committees to plan the promotional work.

They plan to organise lectures, gatherings, printing of pamphlets and other services (including consultant work).

A special character of this association will be that the chairman will not be eligible for re-election after a year's tenure.

"This is to allow a wider participation of interested parties to allow full expression of talents."

Miss Liu emphasised that the association was initiated by Chinese profes-

sionals in Hongkong to serve modernisation programmes in any part of the world.

Local professionals have welcomed the formation of such an association.

They said this has pulled together local Chinese to "pave the way" for a stronger and more advanced China.

Although these people were eager to work in China, they pointed out that at the moment, they still prefer to use Hongkong as a base to serve both China and overseas countries.

As one accountant said: "Hongkong is still used by many multinational corporations as the base for business with China. This is due to the lack of office space in China, the political uncertainties and Hongkong's advanced infrastructure."

"An accounting firm in Hongkong has therefore the advantage of serving local, foreign and Chinese clients at the same time."

Most of the interviewed accountants and engineers rejected the idea of local professional firms forming joint ventures with Chinese professionals or forming a joint professional association.

One accountant said: "The shortage of accountants in Hongkong will be more serious if some of them go to China."

WIDE RANGE OF FINANCIAL CONTRACTS, INVESTMENTS REPORTED

Hong Kong SOUTH CHINA MORNING POST BUSINESS NEWS Supplement in English  
12 Sep 79 p 1

[Text]

Foreign investment contracts valued at US\$300 million were signed by Guangdong Province alone by the end of February.

The agreements, by compensation trading, involved the manufacture of goods ranging from coloured televisions and other electronic goods to tourist buses to clothing and plastic wares, said the director of N M Rothschild and Sons, Mr Robert Valentine.

Addressing the Rotary Club, Mr Valentine spoke on the role of merchant bankers in financing trade with China.

At Hangzhou in Zhejiang Province, electronic calculators are assembled from Hongkong parts; eight Hunan factories manufacture goods from leather supplied by Hongkong firms, and Hongkong textile interests are now linked to producers in places as far apart as Xinjiang and Tientsin.

Explaining the dominance of Guangdong Province, Mr Valentine pointed out both Guangdong and Fujian provinces have been given special status by the Central Government which enables them to frame their own local programmes to encourage maximum foreign participation in development projects.

Fujian has formed the Fujian Investment and Enterprise Corp to play a vital role in the development process.

The corporation's objectives include the issue of stocks to absorb funds invested by overseas Chinese and Chinese people in Hongkong and Macau; develop foreign trades and

business; establish joint ventures with overseas Chinese, Chinese people in Hongkong or Macau or foreign manufacturers; accept from overseas Chinese, Chinese people in Hongkong or Macau or foreign manufacturers, funds to establish enterprises for the production of export goods.

The newly-established China International Trust and Investment Corp will co-ordinate the use of foreign investment and technology, Mr Valentine said.

A Hongkong branch of the CITIC is expected to open shortly.

The China Development Finance Co, the merchant banking arm of the Bank of China, will also play a key role in investment-related matters.

The most important role of the merchant banker, Mr Valentine said, is to provide expert help and advice on the basic structure of the envisaged project and the financial and commercial risks associated with that project — to both parties.

In other words, the merchant banker "can help to 'package' the project."

"Having advised on the basic parameters, the merchant banker then comes to perhaps the key question — how should the project be financed? And in designing an optimal financing plan in the light of the nature of the project, there are a number of clear and specific alternatives."

Within the general financing framework, two of the areas where the merchant banker can provide useful assistance are in foreign exchange implications and the packaging of compensation trade agreements.

## FOREIGN TRADE

### ECONOMIC JOURNAL SEMINAR PROMOTES FOREIGN TRADE

#### Foreign Machinery Urged

Hong Kong SOUTH CHINA MORNING POST BUSINESS NEWS Supplement in English  
15 Sep 79 p 1

[Article by Julie Auyeung]

[Text]

A Peking professor yesterday called on foreign businessmen involved in industrial projects in China to produce goods for the world market — not just for the Chinese market.

He said China aims to buy foreign machinery that will eventually enable it to manufacture machinery.

The Director of the Foreign Trade Department of the Peking Foreign Trade Institute, Prof Liu Chaojin, spoke at a seminar here attended by 300 local businessmen.

The seminar was sponsored by an authoritative Chinese economic magazine, the Economic Information and Agency.

He will give two more talks on Monday and Tuesday to local businessmen on the management and practice of China's foreign trade and related laws and regulations.

Prof Liu is the first scholar from China to address local businessmen on the trend of the country's foreign trade development since the promulgation of its joint venture regulations in July.

He emphasised that China is importing equipment to produce goods for foreign markets.

To speed up its modernisation programme, China is planning to give more power to provincial and municipal enterprises to make decisions regarding personnel and financial management and the exploitation of natural resources, he said.

Prof Liu said more "specialised" companies will be set up to handle the production and marketing of specific products which are being handled by national corporations.

For example, the Ministry of Foreign Trade is now solely responsible for the purchase of foreign equipment.

In future, such "specialised" companies will be able to get a share of the action.

Prof Liu admitted that since the Ministry of Foreign Trade "is not familiar with all aspects of foreign trade, this usually slows down the implementation of China's economic policy."

To facilitate business transactions and negotiations, China has set up international trade centres in Peking, Shanghai and Canton, he said.

"This signifies a decrease in importance of the Canton Trade Fair," he added.

## Expansion Measures Told

Hong Kong SOUTH CHINA MORNING POST BUSINESS NEWS Supplement in English  
18 Sep 79 p 16

[Article by Julie Auyeung]

[Text]

The operations of China's foreign trade were more clearly explained yesterday by the Director of Foreign Trade Department of the Peking Foreign Trade Institute.

Addressing a seminar attended by Hongkong businessmen, Professor Liu Chaojin pointed out 10 different ways used by China in its foreign trade.

According to Prof Liu, equality, understanding and mutual benefit are the basis upon which a contract is signed between China and a foreign party.

Once signed, neither party can cancel or change the terms of the contract at will.

However, when disputes arise, arbitration talks can either be held in the buyer's country, or in the seller's country or in a third country.

An Arbitration Committee exists in the China Council for the Promotion of International Trade (CCPIT) to help settle disputes arising from foreign trade activities.

The committee has prepared a list of arbitrators and each party can choose any one of them.

Both parties will then choose an umpire, unanimously.

"If the settlement is unsatisfactory to the foreign party, it can appeal to the Chinese authorities. If the Chinese party is not satisfied with the result, it can bring the case to a Chinese court of law," said Prof Liu.

"But so far, Chinese corporations involved in disputes with foreign companies have accepted the decisions emerging from arbitration," he added.

The question of patents is another subject often brought up by foreign investors.

Prof Liu said China respects the terms as stipulated in the contract in order to protect the foreign party's new inventions.

He pointed out that if the other party notifies in advance that the product can only be used in a Chinese factory, China will comply. But China "will not take the responsibility if that special technical know-how is known to a third party before being imported to China."

On the question of profit tax from investments in China, Prof Liu repeated the official assurance that certain profits from an investment can be repatriated out of China.

Prof Liu disclosed that in addition to the conventional trading practices, China is constantly adopting new measures to expand its trade relations with other countries.

These are:

- Seasonal consignments to make sure that imports and exports are shipped in and out of China to meet market demand in different seasons.

- Holding exhibitions inside and outside China to push sales.

If an exhibition is organised by an overseas party, China will supply the commodities and payment will be made to China on the completion of the fair.

If it is a joint exhibition, the foreign trader will be responsible for the cost and risk, while China will pay the service charges.

- Re-export business. The foreign party might supply raw materials, parts, accessories or packaging material for the processing work done in China. China will pay for these afterwards.

- Processing. Some of the equipment that China does not have but needs for the processing work can be imported without duty being imposed on it.

- Assembling business. The foreign investor can decide whether a product "finished" in China will carry his trade mark or not.

- Orders from abroad. Foreigners can spell out their specifications and China will produce according to the specifications.

- Co-operation production. Technical staff and equipment can be provided by the foreign party to produce technical items such as electronics.

- Order for sample. China will accept orders for samples provided the products are not "reactionary, obscene or pornographic."

- Compensation Trade. The investor can "buy back the product or other products manufactured by another party in China."

- Joint ventures. China might take a stake in a foreign investment, but details of the percentage of the stake and profits will be announced soon.



## Higher Wages Urged

Hong Kong SOUTH CHINA MORNING POST BUSINESS NEWS Supplement in English  
19 Sep 79 p 1

[Article by Julie Auveung]

[Text]

Chinese working in joint ventures in China should be paid higher wages than those working in state enterprises, according to Prof Liu Chao-jin, the director of the Foreign Trade Department of the Peking Foreign Trade Institute.

Speaking at the Excelsior Hotel in Hongkong, Prof Liu said "the wage scale in the joint enterprises should be higher than in state enterprises because the basis of operation is different.

"Besides, in Chinese state enterprises workers' salaries are comparatively lower than in other countries."

Prof Liu, who arrived here last week from the United States after giving a three-week seminar at the Stanford University, will return to Peking on Friday.

He also called on foreign partners in joint ventures to transfer technical know-how to the Chinese workers "to boost production and efficiency."

He stressed that the foreign partner "should not monopolise" technical know-how but "pass the technology on to the workers."

"A joint venture could be successful only on the basis of mutual understanding.

"Production could be increased if the Chinese workers have mastered the technical skill."

Prof Liu urged "sincerity" and "honesty" in the transfer of technical know-how to the Chinese.

He said Chinese state enterprises paid lower salaries than those in other countries but due to the lower rentals in China and various welfare schemes provided to the workers, they are "enjoying a reasonable" life.

Prof Liu said the benefits the workers receive include

medical treatment, transport expenses, entertainment allowance, and cold drinks in summer and free hair cuts.

Financial aid is provided to the needy and above all, "Chinese workers do not have to pay tax," said Prof Liu.

China is still following the principle of "to each according to his work" in awarding the Chinese workers.

"This is to produce a more efficient workforce both in state enterprises and joint ventures," said Prof Liu.

He spoke in detail about the question of arbitration, which is a concern for most investors.

This can be summed up as:

- Arbitration should be conducted openly, but could be done confidentially if one side requests it.

- Everything should be written down in black and white and all information outlined clearly. The information cannot be disclosed before the document is signed by the three appointed arbitrators.

- The case could be put forward to the People's Court if the arbitration is not carried out on time.

- The Foreign Trade Arbitration Committee (FTAC), formed in 1956 as a body directly responsible to the Chinese Council for the Promotion of Foreign Trade (CCPIT), will provide a list of "experienced" arbitrators and three would be chosen out of them to settle any dispute.

- The FTAC is empowered to replace arbitrators if the party involved does not agree with the initial decision.

- The foreign party may seek assistance from other Chinese authorities such as the CCPIT.

UNUSUAL HOUSING PACT AGREED UPON WITH DEVELOPER

Hong Kong SOUTH CHINA MORNING POST BUSINESS NEWS Supplement in English  
12 Sep 79 p 1

[Text]

An unusual financial arrangement has been struck between China and a Hongkong company which will develop a housing project in Swatow.

Under the arrangement, China will compensate the developer which will also market the units to overseas Chinese, for losses it may incur.

On the other hand, if it profits from the project, it will be charged "an extraordinary profit tax" of 50 per cent of the selling price exceeding 520 yuan per sq metre (about HK\$145 per sq ft).

The unusual contract was made between Chung Fat Development Company headed by Mr Koo Bong and Mr Lee Hon-fat, and the Swatow Housing Authority.

Mr Koo said yesterday that the construction to be undertaken by Swatow Construction Department would cost about \$82 per sq ft, excluding construction materials to be imported to China such as cement, steel hardware and glass.

The first 132 housing units with a total floor area of 82,272 sq ft will be sold at about \$170 per sq ft, which amounts to \$14 million, Mr Ko said.

The Hongkong company will provide for half the development cost and try to sell the flats to Chinese in Hongkong, Thailand and Singapore who want to participate in industrial activities in China, or to retire in Swatow, or those who wish to purchase for their relatives in China, according to Mr Koo.

There will be three sizes of flats, 496 sq ft, 680 sq ft and 950 sq ft.

The total building area for the whole project will be 540,000 sq ft with total construction cost estimated at \$45 million.

The housing project will be developed in three stages, with each phase expected to be completed in six months.

Construction is expected to begin at the end of this year, Mr Koo said.

## BRITISH RAIL PROPOSAL TO UPGRADE RAIL SYSTEM OFFERED

Hong Kong SOUTH CHINA MORNING POST BUSINESS NEWS Supplement in English  
19 Sep 79 p 1

[Article by Barry Choi]

[Text]

British Rail has submitted proposals to the Chinese authorities on ways to modernise China's railway system, after a delegation visited China last October.

Response to the proposals is expected during a return visit by a Chinese railways delegation to Britain later this year, a director of Transmark, Mr Ian Todd, disclosed yesterday.

Mr Todd is on a supervisory visit here in connection with the modernisation and electrification of the Kowloon Canton Railway, which is Transmark's most important overseas consultancy project at present.

Transmark is a subsidiary of the State-owned British Rail.

Its chairman, Mr Ian Campbell, who is also the chief executive of BR, led a six-member delegation to China last October.

China has indicated that its main tasks are to speed up the pace of development and the transformation of existing lines to meet economic goals.

It hopes to extend its present railway network from 31,250 miles to between 75,000 miles and 81,250 miles by the end of this century.

Mr Todd pointed out that during the visit last October, the Chinese authorities had shown interest in getting British advice on developing certain aspects of their railway system, such as the upgrading and electrification of the Lowu-Canton line, along with the electrification of the KCR on the Hongkong side.

He said: "They were also interested in our system of supplying coal, called the merry-go-round system which involves no marshalling yards, to coal-fired power stations economically."

"They were also interested in certain advanced technology and establishing a relationship with the research and development arm of British Rail at Derby in England."

"We are still following up these opportunities and we have submitted proposals to the Chinese Government."

"We have received information that China is planning to send a delegation of rail experts, possibly including the Minister of Communications, to Britain in November or December."

Mr Todd described the proposals as preliminary which involve no cost estimates. These will have to be followed up by feasibility studies.

"Very much work still needs to be done. We just set out how the jobs are to be approached and indicated the basic knowledge we would like to have to carry out the jobs — knowledge such as the present constraints facing the Chinese rail systems," he said.

BR has one of the world's most advanced railway research centres in the world, involving about 1,000 scientists and engineers engaged in solving rail transport problems.

"Our views are that basically China's railways are efficiently operated within the realm of the technology available to the country."

"The technology available to the Chinese is a little behind, thus the authorities are interested in getting outside assistance."

"The scope for improving a system to carry more passengers and goods at higher speeds is dependent on technology up to a certain level. There is considerable scope for improving China's existing rail systems."

"We believe that given the opportunity to implement one or two more sophisticated systems, our Chinese counterparts will certainly be able to make immediate use of them," Mr Todd said.

## FOREIGN TRADE

### BRIEFS

**PURIFIED PHENOL PRODUCTION**--Progil Electrochimie, a coequal affiliate of Rhone-Poulenc and PCUK [no expansion given] connected with the petrochemical division of Rhone-Poulenc, has just signed an agreement with BP Chemicals Ltd authorizing Mitsui Petrochemical Industries Ltd to grant a nonexclusive license for use of the DEG (diethylene glycol) process for the purification of Phenol to the China National Technical Import Corporation in Beijing. The PRC plans an annual production of some 50,000 tons of purified phenol. [Text] [Paris L'USINE NOUVELLE in French 13 Sep 79 p 107]

**CHINESE TECHNICAL ORDER**--Osaka August 13--Maruzen Engineering Corp, said Monday the company has won a Chinese order for an automatic control system for the calorific value of fuel gas and related know-how at \$780,000. The system, on order from the China National Technical Import Corp., is the first of its kind to be exported to China from Japan, a Maruzen spokesman said. He said the system is to be installed near a picture tube plant to be built by Japanese electrical manufactures in the suburbs of Xian, Shaanxi Province. The company, based in Tokyo, is a subsidiary of the Osaka-based Maruzen Oil Co. [Text] [Tokyo KYODO in English 0645 GMT 13 Aug 79 OW]

**TV SET PRODUCTION**--Beijing, 12 September--China produced 2.3 times as many television sets in the first 7 months of this year as in the same period of 1978, reports the WORKERS DAILY today. There was a general improvement in quality and production costs were reduced, the report says, quoting as its source a meeting of representatives of plants producing TV sets convened in Shanghai for the purpose of pooling experience. The meeting proposed a nationwide emulation drive to increase output and practise economy and to work for an output some 20 percent in excess of the quota set by the 1979 state plan for the industry. China began producing TV sets in 1958. It turned out 280,000 sets in 1977 and 490,000 last year. The target for 1979 is 1,010,000 sets. The country will also import some sets to solve a supply shortage. The country is now building its first color television kinescope plant in Xianyang city, Shaanxi Province. Upon completion, the plant will produce 960,000 self-convergent color kinescopes with 14- and 22-inch width screens every year. [Text] [Beijing Xinhua in English 0214 GMT 12 Sep 79 OW]

SHANGHAI PETROCHEMICAL EXPORTS--Shanghai petrochemical general plant is striving to produce more export products. By the end of August, it had exported 6,480 metric tons of acetic acid, (?vinyl cyanide), pure benzene and 4 other products to Japan, Thailand, Malaysia, Singapore, the Philippines, Pakistan and Hong Kong, and earned \$5.3 million for the state. [Shanghai City Service in Mandarin 1130 GMT 11 Sep 79 OW]

ZHEJIANG PREFECTURE HANDICRAFT EXPORTS--The total output value of handicrafts and tourism industry products produced by Ningbo Prefecture in Zhejiang Province reached 52.67 million yuan last year, earning more than 10 million dollar foreign exchange for the state. The total value of export handicrafts in the January-July period this year showed an increase of 14.53 percent over last year's same period. [Hangzhou Zhejiang Provincial Service in Mandarin 1100 GMT 11 Sep 79 OW]

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